

**PUBLIC GOVERNANCE DIRECTORATE  
COMMITTEE OF SENIOR BUDGET OFFICIALS**

**Targeting Public Spending: Means-Testing and User Charging**

**45th Annual Meeting of Senior Budget Officials**

Athens, Greece, 1-2 June 2023

This paper was prepared by Joseph J. Minarik, former Senior Vice President and Director of Research, Committee for Economic Development, The Conference Board, United States.

It argues that countries will need to better assess potential savings in the provision of universal benefits and providing services free to all at the point of delivery. Instead, programmes will need to be targeted at those truly in need, and services only free to those with limited ability to pay. It draws an analogy to the progressivity of the tax system where those with greater means pay higher taxes. A similar philosophy should be the basis of government spending. The paper is meant to stimulate discussion among Senior Budget Officials. The opinions expressed herein are of the author and do not reflect those of the OECD.

Contact: [Jon.BLONDAL@oecd.org](mailto:Jon.BLONDAL@oecd.org)

**JT03519573**

*Table of contents*

**1. Targeting public spending: Means-testing and user charging ..... 3**

- 1.1. Introduction ..... 3
- 1.2. Applying progressivity principles to spending policies: The rationale, and policy concerns ..... 5
- 1.3. Reining in old-age pensions ..... 8
- 1.4. Controlling healthcare cost ..... 9
- 1.5. Education ..... 15
- 1.6. Other public programmes ..... 19
- 1.7. Conclusions ..... 21

**FIGURES**

- Figure 1. General government debt in OECD Countries ..... 4
- Figure 2. General government debt across OECD countries ..... 4
- Figure 3. Government spending on health is increasing ..... 9
- Figure 4. Increase in government spending on health from 2000 to 2020 ..... 10
- Figure 5. Government spending on health in OECD countries in 2020 ..... 10

## 1. Targeting public spending: Means-testing and user charging

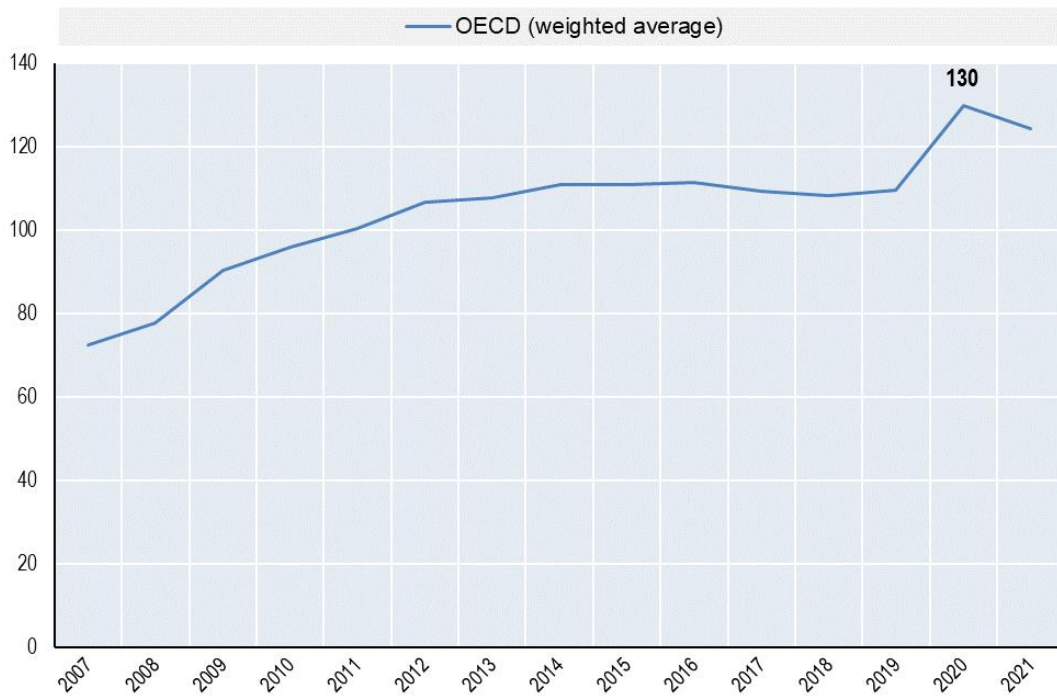
*This paper argues that countries will need to better assess potential savings in the provision of universal benefits and providing services free to all at the point of delivery. Instead, programmes will need to be targeted at those truly in need, and services only free to those with limited ability to pay. It draws an analogy to the progressivity of the tax system where those with greater means pay higher taxes. A similar philosophy should be the basis of government spending. It highlights examples of the application of means-testing and user charging for key areas including retirement benefits, health care and education. The paper is meant to stimulate discussion among Senior Budget Officials.*

### 1.1. Introduction

1. The once abstract threat of a loss of budgetary control is now becoming real before our eyes.
2. After widespread progress during the robust economic growth of the last years of the 20<sup>th</sup> century, the fiscal condition of many OECD countries regressed in the first years of this millennium, and was already a cause of concern by 2007. Students of public budgeting concluded that the developed nations needed to shore up their finances to prevent a painful build-up of debt along with resulting crippling debt-service costs that would limit long-term public and private investment and inhibit economic growth.
3. Instead, the global economy encountered a remarkably widespread financial crisis. Different nations responded in different ways and to different degrees, but the common denominator was indisputably to use public budgets to support private demand in the interest of avoiding even further economic downturns and reductions of employment and incomes. This pushed public debt further beyond historical norms.
4. Then, in 2020, the world was enveloped by a viral pandemic that closed workplaces, fractured goods value chains, and interrupted supply. Once again, economies on the brink of epic downturns demanded fiscal stimulus to forestall the worst, as well as enormous taxpayer investments in public health to address the pandemic directly. So with no feasible short-term alternative, nations borrowed still further. Figure 1 illustrates how the public debt burdens of OECD countries have risen to levels unknown in modern history. As debt is refinanced at higher post-pandemic interest rates, those debt burdens will only grow still further.

Figure 1. General government debt in OECD Countries

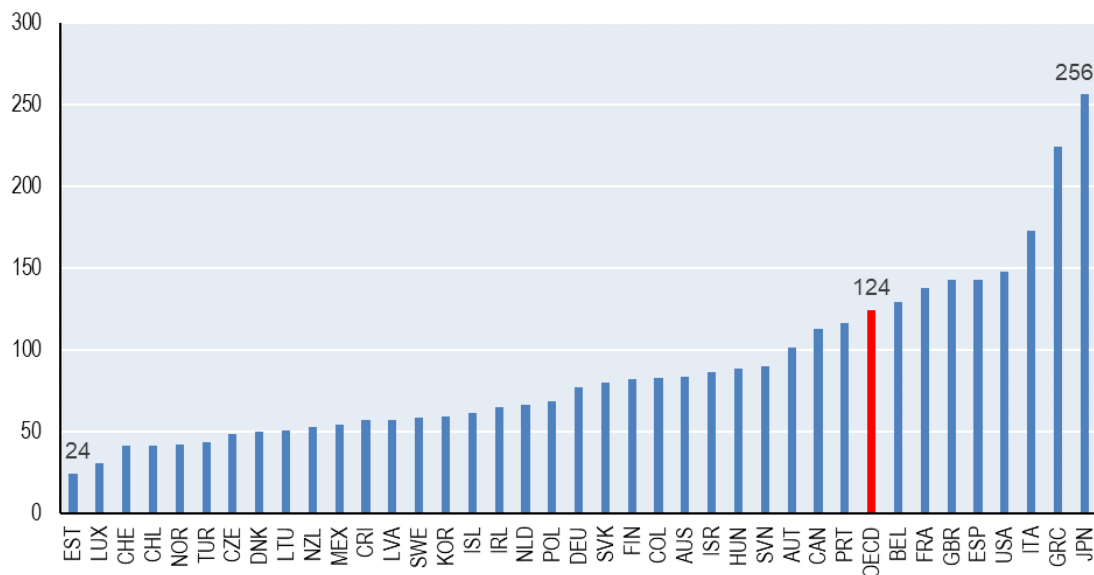
% of GDP, 2007-2021



Source: OECD

Figure 2. General government debt across OECD countries

% of GDP, 2022 or most recent



Note: OECD is the weighted average for 2021. Data for Norway, Canada and Portugal is for 2022. Data for New Zealand and Israel is for 2020. Data for Colombia and Iceland is for 2019. Data for other countries is for 2021.

Source: OECD

5. Far from demonstrating that “debt doesn’t matter,” these successive episodes of inadequate preparation for monumental bad luck merely set the stage for at least three global experiments. The first is how taxpayer-citizens will react when they realise that the greatest use of their tax moneys is not to buy them security, infrastructure, health care, pensions, or any other public services and amenities, but rather to pay interest on the public debt. The second is how much the disruption of financial markets by a flood of government demand for credit will hamper the economic growth that must support those public budgets. The third is how investors will react when they realise collectively that the sovereign debt that they have forever assumed was riskless may not be riskless after all.

6. And yet, pressures on public expenditure levels are intensifying even further – because of population ageing, climate change, health care and social care, as well as national security concerns, among many other forces. The scale of these pressures is such that reallocations of funds alone will not solve the problem.

7. And there is little or no apparent willingness to address the problem head-on, either from politicians as leaders or from the voters themselves. The will to raise taxes is limited, in part because the last two decades of economic dislocation and limited income growth leave citizen-voters unwilling to sacrifice still more for the prospect of avoiding some further ill-defined loss, however potentially serious in the eyes of “experts.” Meanwhile, the capacity of financial systems to accommodate growing debt and deficits is surely not infinite.

8. So resistance to the conventional fiscal remedies – reductions in public services, and increases in general-revenue taxes – is no less today than it has been over the last 20 years, while debt has mounted faster than the production of even the most technologically adept economies. So, how to get fiscal retrenchment off the dime (or euro, or yen)?

9. One possibility is to increase the targeting of public spending – that is, to direct public funds more carefully to where they will do the most good. In some programme areas, that might entail asking the citizens who benefit the most from generally accessible public services to pay for them specifically. In other programme areas, public benefits could be targeted more sharply to demonstrated need, by reducing payments to those who are better off.

10. These two general devices – user fees and means-testing – are a part of government’s toolbox now, but arguably have been less frequently or intensively employed than they could or should be. Before more time passes in inaction, and more debt piles up, it behoves public decision makers to explore the greater potential use of these tools to slow the accumulation of debt across all areas of government operation. Any such moves would not only help to curb the build-up of debt, but also yield the greatest benefit from our increasingly scarce public funds – that is, increasing the “productivity” of government resources.

## **1.2. Applying progressivity principles to spending policies: The rationale, and policy concerns**

11. The term “progressivity” is widely understood as the distributional property of a tax system whose burden rises more than in proportion as income rises. Its rationale rests as much on philosophy as it does on theoretical economics. In the most-abstract theory, economists sometimes reason that the marginal utility of income can be expected to fall as income rises; that is, the first units of income buy the most urgent necessities of life, and thus are most valuable to the recipient; whereas further increases in income purchase nonessentials or even luxuries, and so have less inherent value. If that proposition is

accepted, society is made better off – that is, the sum of the “utility” (or well-being) of all citizens is increased – if income is transferred from the most well-off to others who are struggling to keep body and soul together, or at least if proportionally lower taxes are levied on the least well-to-do. However, that proposition is inherently unverifiable. In the end, it is up to society to assess the utility of the first and last units of income through the political process.

12. The same concept is sometimes applied to analyses of public spending, though less frequently and with less public discussion. Such “progressive spending” might be achieved in two alternative ways. First, the benefits of government cash or in-kind benefits can be reduced as the beneficiary’s income increases; that is referred to as “means testing.” In this way, spending programmes could be more systematically directed toward persons with low incomes. Alternatively, citizens who benefit directly from business-like activities or services of government (which are not specifically targeted toward particular income groups, in one direction or the other) might be required to pay “user fees” in return for the benefits they enjoy.

13. In several instances, such “progressive spending” might be argued to increase society’s overall well-being. Personal health care for low-income persons, who are less likely to be able to afford it for themselves, might safeguard the broader public health (as the gradual constraint of the long-running pandemic likely demonstrates). At-risk children may contribute more to society and incur fewer social costs if provided with supportive education, adequate nutrition, and safe and secure housing. The same public expenses would have less impact on societal outcomes if directed toward more-affluent households that can and would be expected to provide for their own. Thus, the greatest efficiency in the use of public funds may likely be attained if they are directed more toward need.

14. Some empirical work has tried to measure a quantitative relationship between progressivity of taxation and rates of aggregate economic growth, though that research is complicated by a mass of other variables, including notably how the direct revenue cost of lower tax rates is financed.<sup>1</sup> An alternative approach is to attempt to measure directly the impact of tax rates on individual behaviour through those incentive effects. Protagonists who are dubious about progressive taxation and spending emphasise the role of price incentives; on their side, highly skilled workers will be discouraged from taking a job, working longer hours, or accepting more responsibility on the job, if their extra earnings will be taxed more heavily, or if the resulting increment to their ultimate retirement benefits will be smaller (or they would suffer any other reduction of progressive spending – such as reduced subsidies for health care, for example). The other side argues that the effect of more-progressive tax and spending policies will actually elicit more work effort, as those skilled workers seek to replace the resulting lost current spendable incomes and future retirement benefits through greater work or saving. Both of these incentives, referred to in the trade as “substitution” and “income” effects respectively, are at least theoretically real; but they push in opposite directions. And the ultimate question is how they balance in the real world, and how any net negative for economic efficiency in more-progressive tax and spending policies should be weighed against any perceived offsetting positive for equity.

---

<sup>1</sup> Åsa Johansson, Christopher Heady, Jens Arnold, Bert Brys and Laura Vartia, “Tax and Economic Growth,” Economics Department Working Paper No.620, OECD, June 11, 2008; Jane G. Gravelle and Donald J. Marples, “Tax Rates and Economic Growth,” Congressional Research Service Report for Congress R42111, January 2, 2014; William G. Gale, and Andrew A. Samwick, “Effects of Income Tax Changes on Economic Growth,” Brookings Institution, September 2014.

15. This leaves policy at the horns of the virtually eternal equality-versus-efficiency trade-off.<sup>2</sup> Empirical results are jumbled, to say the least. Over several decades, tax rates have generally (though not monotonically) declined, while work effort has declined as well in the form of earlier retirement – possibly because of greater general societal wealth, a clear “income effect.” Labour force participation declined in the wake of the coronavirus pandemic, but there are signs that participation rates are coming back.<sup>3</sup>

16. A philosophical argument is sometimes claimed to resolve the argument for progressivity of both tax and spending policies through a kind of compromise. The proposition is that people not knowing their future life prospects – people somehow placed behind a “veil of ignorance” – would vote for a low-income relief programme financed by moderately progressive taxes. In other words, people behind that veil of ignorance would implicitly choose to purchase insurance through progressive taxes on their higher incomes should they prove to be successful, to finance an improvement of their status through progressive spending if they do not.<sup>4</sup> Although there is enormous ambiguity, even outright confusion, in public understanding of issues of tax and spending policy, some survey results suggest that this philosophical speculation may roughly accurately represent real-world attitudes.<sup>5</sup>

17. However, there is no veil of ignorance in real life, and imposing means testing through enacted public policy would require the assent of at least some people who already have found themselves successful, and who know that they would pay more with greater means testing. That resistance may or may not be overcome by a large group of modest-income taxpayers voting to increase taxes on the much smaller highly well-off minority to finance more-generous benefit programmes. And we may expect voters to consider the public interest as well as their own personal interests. Thus, although political prospects are always unknowable, the likelihood of adoption of progressive means testing or user fees for fiscal consolidation in the face of mounting debt, with its potentially serious or even catastrophic economic and financial consequences, may nonetheless be greater than that for straightforward tax increases and spending cuts. It could also provide greater efficiency or productivity in the use of public funds at a time when those funds are scarce, and target those funds more closely to need.

18. With that background in place, the next step will be to review several potential areas for budgetary retrenchment – and government productivity improvement – starting generally with the largest and moving on to the smaller opportunities, some longstanding and some quite new.

---

<sup>2</sup> Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff*, Brookings, 1975.

<sup>3</sup> NBC News, “Women are driving the labor market’s post-pandemic recovery,” February 13, 2023 <https://www.nbcnews.com/business/economy/women-are-driving-labor-markets-post-pandemic-recovery-rcna70202>.

<sup>4</sup> John Rawls, *A Theory of Justice*, Harvard University Press, 1999.

<sup>5</sup> Frank Newport, “Average American Remains OK With Higher Taxes on Rich,” Gallup, August 12, 2022; Pew Research Center, December, 2019, “In a Politically Polarized Era, Sharp Divides in Both Partisan Coalitions;” Howard Schneider and Chris Kahn, “Majority of Americans favor wealth tax on very rich: Reuters/Ipsos poll,” Reuters, January 10, 2020; Lucy Barnes, “To understand the politics of taxation, we must understand how the public thinks the economy works,” European Consortium for Political Research.

### 1.3. Reining in old-age pensions

19. Any plan to buttress the funding of a national retirement programme in an era of adverse demographic change will be an exercise in means testing. We do not live in the demographically robust world of half a century ago, in which the working-age population and real wages grew continuously at least as fast as the retiree population. All beneficiaries could receive positive rates of return, and strengthening the financing of the system required merely reducing those rates of return fractionally for all. Today, rather, the additional costs and reduced benefits to compensate for adverse demographic change must be allocated somewhere on a discretionary basis through painful political negotiation and consensus. Therefore, with low birth rates and aging populations, policymakers will be confronted with choices about who pays. Simple across-the-board benefit cuts or tax increases will not pass a political or a perceived-fairness test.

20. Among the clearest potential applications of means testing are the communitarian programmes such as old-age retirement pensions, which are often thought to require universal participation to maintain social cohesion and broad acceptance. To obtain the revenues needed to maintain social insurance benefits for those whose life earnings outcomes are below the average, it is essential to have upper-income workers contribute – which in turn, given the communitarian rationale, requires that they receive at least some benefit. In many countries, the demographics of rapidly growing workforces in the second half of the 20th century allowed upper-wage workers to receive positive real returns while still subsidising lower-wage workers. Current demographics are not so favourable. Many countries have not yet addressed their own adverse demographic changes, and so their retirement programmes are underfunded. Funding those programmes through more-rigorous means testing would provide an additional benefit in the form of an overall fiscal palliative, and those nations that have not funded their retirement programmes should consider such changes seriously and expeditiously as a first step toward over fiscal sustainability that is essential for those programmes' own viability.

21. Attaining fuller funding of retirement programmes is of course politically fraught. At a minimum, current retirees must at least be treated with great care, if they are not totally “grandfathered” (i.e. not subject to the new reforms). Similar restraint must be extended to people who are of ages close to typical retirement, because they may have insufficient time to change their retirement plans, or to make work choices to adjust to significant reductions in their expected retirement benefits. The bad news, tellingly, is that even the youngest of the post-World War II baby-boom generations (in those countries that had them) are already very near to customary retirement age. Therefore, financial consolidation of retirement systems will likely prove insufficient without some means testing of affluent current and near-term retirees. The good news is that for all the uncertainty about future demographics and worker and retiree behaviour, retirement programme policies are still far simpler and more precise and predictable in their effects than are health care policies (to be discussed immediately below).

22. To reiterate, improving the funding of retirement programmes of course pays a double benefit: first, it provides greater certainty for current retirees, and current workers (who are our future retirees); and second, it reduces current and future overall fiscal imbalances – to the benefit of financial predictability and stability, and future economic growth. It is therefore a clear imperative for countries that have not yet funded their programmes for the foreseeable future.

23. **Means Testing of Other Programmes.** The universe of prospective means testing surely would not be taken to include pure public goods such as national defence. The benefits of those programmes are intangible and difficult or impossible to value.

24. However, there are other appropriate uses of means testing. Some narrowly based programmes such as veterans or agricultural benefits are sometimes more generous to comparatively well-to-do beneficiaries than other broad low-income means-tested programmes. Other potential applications of means testing in existing low-income and categorical benefit programmes should also be identified. All such programmes might well be considered for additional, more-rigorous means testing, and the pain of tightening of these benefits must be weighed against inevitable alternative methods of fiscal consolidation.

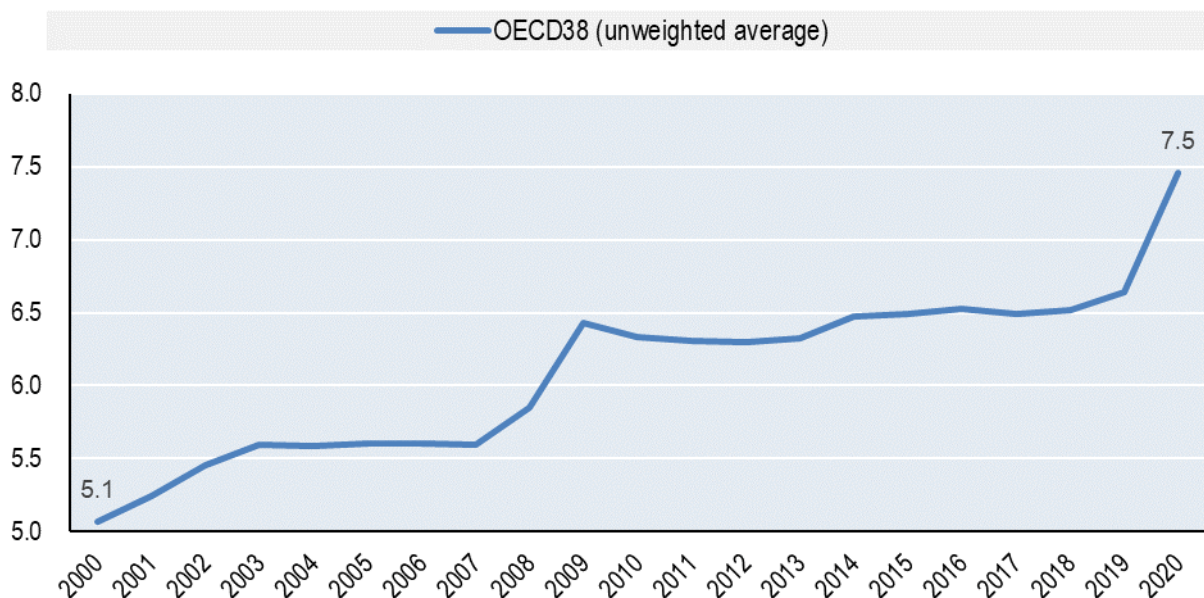
25. To summarise, the largest benefits potentially subject to means testing are the major national retirement programmes, and bringing those programmes closer to long-term actuarial balance should be a public priority in any event. Other categorical (as opposed to income-based) programmes should at least be considered as well. More-rigorous means testing of income-conditioned programmes should of course be considered, but will be controversial and hotly contested.

#### 1.4. Controlling healthcare cost

26. Health care is a major – perhaps *the* major – cost driver of government budgets today. Although levels of health expenditures as shares of national economies differ across countries, they are rising (potentially unsustainably) in all countries – a trend which long predates the pandemic (see Figure 3). Viewed simply as an arithmetic exercise, it seems clear that the growth of health care costs must be slowed or government budgets will not survive; even if non-health care spending budgets were altered radically, taxes still would need to rise continuously. This is of course not to deny the need of the population for quality care; it is merely to assert the challenge of actually delivering it.

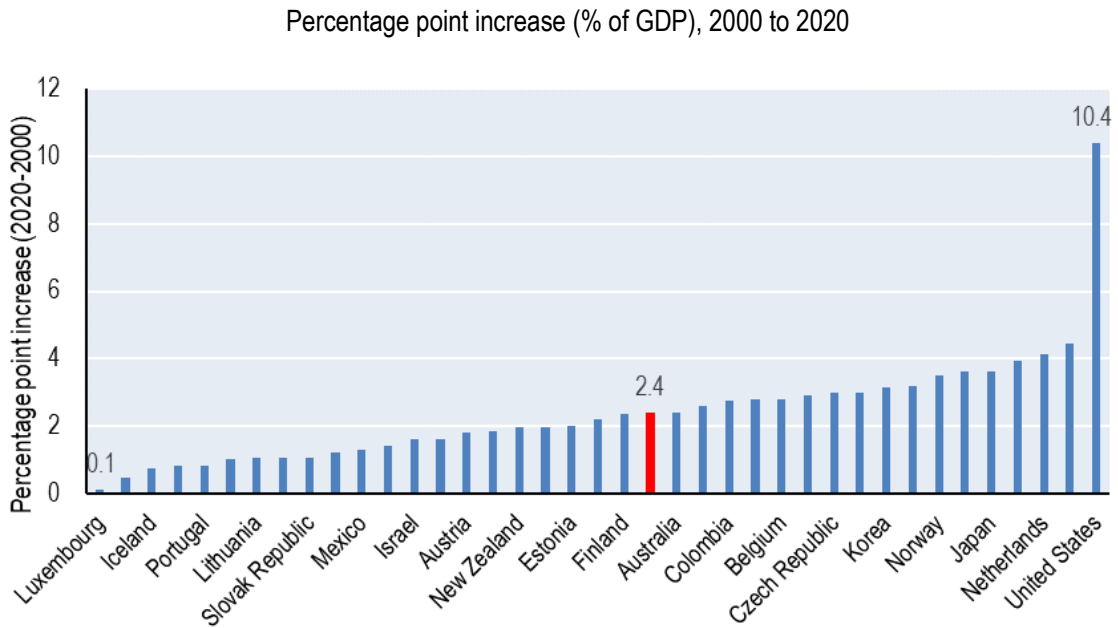
**Figure 3. Government spending on health is increasing**

% of GDP, 2000-2021



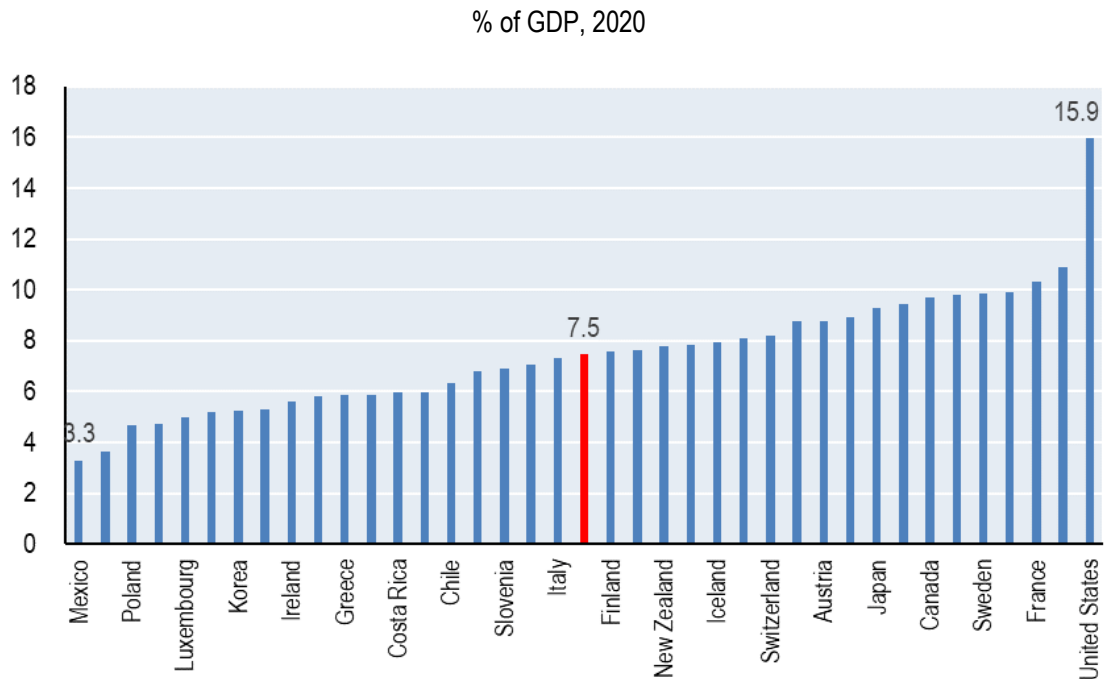
Note: Includes financing from government schemes and compulsory contributory health insurance schemes. OECD38 is an unweighted average.  
Source: OECD Health Statistics (2023)

Figure 4. Increase in government spending on health from 2000 to 2020



Note: Includes financing from government schemes and compulsory contributory health insurance schemes. OECD38 is an unweighted average.  
Source: OECD Health Statistics (2023)

Figure 5. Government spending on health in OECD countries in 2020



Source: OECD Health Statistics (2023)  
Note: Includes financing from government schemes and compulsory contributory health insurance schemes. OECD38 is an unweighted average.

27. Rising health care spending must be understood in context. There is a logic to people choosing to spend rising shares of their increasing incomes on their health, instead of on larger houses or cars or meals, or richer clothing.<sup>6</sup> From this perspective, economists would describe health care as a “superior good” – on which people spend an increasing proportion of their incomes as those incomes rise. Such an upward trend in health care spending would not necessarily grow exponentially without limit, and could in time burn itself out. However, even such assessments of trends in health care spending acknowledge that spending grows because of inefficiency as well, and that the cost of delivering one unit of health care at constant quality is in fact growing faster than incomes in the economy as a whole – which cannot be sustained.

28. Yet another driver of aggregate health care costs is neither reversible nor even in most respects undesirable, and that is the generally lengthening lifespans of the population (any enduring effects of the coronavirus pandemic being not yet fully understood.) Which young person does not want to live longer? – but it is a problem, nonetheless. Therefore, cost-saving efforts otherwise have less than total leverage on the problem, and so the force to be exerted must be that much greater to achieve sufficient overall cost restraint.

29. In other words, viewed from the limits of the earth’s atmosphere, the value of human life is infinite; health care is a right, not a privilege; and so health care should be free and equally accessible to all of God’s children. But viewed from sea level, while the value of human life may be infinite, our resources are not. There are not adequate resources today to provide all desired services to all of our people, and given current trends that shortfall will only become more acute year by year into the future. Therefore, to direct our finite resources to where they are most needed, people must be incentivised to make smart choices. And the best way in which we can incent and direct smart choices by citizens in general, as well as by healthcare providers, is to deploy the force of the market, directed to achieve fair and humane outcomes.

30. Unquestionably, universal national health systems must be supported by means testing in the form of progressive general revenue systems. But exponentially rising costs will require exponentially rising taxes. Governments must find a brake for those health care costs.

31. Although it would in some countries require an extraordinary shift of fundamental attitudes toward health care, now often perceived as a basic human right available to all for free and without limit as a communitarian value, incentives could be directed in positive and important ways by imposing user fees. This could be done even after the cost of a national health care system is covered substantially or totally through progressive general revenue taxes.

32. **The Rationale for User Fees.** The basic rationale for user fees in economic theory is allocational efficiency – in other words, the pursuit of the greatest public benefit for any public money spent. Clearly, in this day of extreme public revenue scarcity, such “bang for the buck” is of crucial importance. Government revenue sufficiency (narrowly defined) is a subsidiary, not the principal, benefit at the theoretical level.

33. To provide just a very brief conceptual background: Pure public goods, which benefit all citizens equally and from which no citizen can be excluded, would not properly be subject to fees assessed to specific users. The costs of such public goods should be recovered by general, broadly based taxes, and those taxes should be assessed such that the marginal benefit of each public good equals the marginal cost of the funds to pay for it

---

<sup>6</sup> David M. Cutler, *Your Money Or Your Life: Strong Medicine For America’s Health Care System*, Oxford University Press, 2005.

(including its potential benefit to private taxpayers, and collection costs and costs of distortions caused by the tax). The relative progressivity of the broadly based taxes might be thought of as “means testing” of the receipt of the public goods.

34. In contrast, in instances where goods and services with separable benefits should or must be produced by government, the efficient allocation of resources requires that a price be charged. Such goods and services should not be perceived as “free” by voters and taxpayers, lest they demand too much of them. The classic case is a good or service produced with increasing returns to scale. A private profit-maximising firm would underproduce such a good or service, to the detriment of society. Competing private, profit maximising firms would surely underproduce even more. As a result, such goods or services are better produced by government (or by private entities under governmental regulation), issues of technological stagnation caused by government production without the discipline of competition notwithstanding. Examples include roadway networks, natural gas pipelines, and electricity grids. Building parallel infrastructures would be unnecessarily costly and wasteful, and so public production or in some instances regulated private provision are typically preferred. Adequate recovery of public costs would be necessary to gauge the efficient amount of investment, as well as to assure revenue sufficiency.

35. That textbook case of appropriate government provision of, and charging for, the use of goods or services is widely accepted. Often, however, institutions fail to change with the underlying circumstances. Institutions often behave today the way they did yesterday, because of inertia rather than continuous re-thinking and self-examination. That inertia can hold in both directions; bodies may remain at rest or in motion. So new technology for the intelligent measurement and routing of flows of electricity might suggest a lessened government role in a more-intelligent electricity grid, for example.

36. Thus, given the increasing urgency of the festering fiscal problem and the need to extract the maximum value from scarce public funds, policymakers should consider carefully the potential role of user fees in maximising the productivity of each unit of government spending, and also in shrinking the fiscal gap.

37. **User Fees in Health Care.** To judge the impact of user fees on free national health care systems, it is necessary to look across borders to fundamentally different systems where user fees are already imposed. In the latter group of national systems, fees are typically used as a resource-allocation device in private insurance plans, and as a result actual data are typically proprietary, and therefore not available for public policy analysis. However, some general lessons can be learned from that experience.

38. The fundamental premise of health systems is that no important care should be denied. (Individual providers take an oath to that effect.) But if those systems do not provide that care at the lowest possible cost in today’s resource-constrained world, then promises of access to care will sooner or later prove empty.

39. And if care is perceived as free by individual citizens, they will treat it as though it were resource-free; therefore, costless professional care will be sought in instances of minor medical conditions where those professional resources have a very low payoff – surely less than the opportunity cost in alternative applications. But perhaps even more importantly, professional care will be sought in high-cost settings even when such facilities are unnecessary, and less-costly venues are readily available. The quintessential example is resort to the hospital emergency room, which must be equipped for sudden and catastrophic illness or injury, and thus is among the costliest settings for care. And that cost is measured in more than money; an emergency room bed occupied unnecessarily by a

sufferer of a severe cold could delay the care of the victim of a sudden serious injury or illness – with tragic results.

40. And given advances in technology, exploiting low-cost modes of treatment is becoming ever easier. Advice can be dispensed over the telephone with expert systems to identify cases where in-person interventions are in fact necessary. The same can be done through Internet questionnaires where the initial screening is done by the expert system in an app or via e-mail where a health care professional can review the patient without engagement in real time. Photos can be sent via the Internet if that would provide useful information. Video conferencing can allow in-person professional review time-efficiently, and without a sick and potentially contagious patient being exposed to the elements or to other potentially contagious patients. And yet all of these advances may be underutilised if all treatments are free and patients simply make office appointments – which they may perhaps later ignore without personal cost, wasting the time of the provider. Or worse, patients may just trundle into the provider's office; or worse still, they may invade the hospital emergency room and overload the system.

41. Pharmaceuticals are of course a substantial part of healthcare costs. User fees can be set at varying levels to steer patients from prescription to over-the-counter medicines, and from name-brand prescriptions to generics, saving cost for the system and ultimately for the patients with no loss in quality of care. This might still allow the system to make available name-brand drugs for patients who need or prefer them, and are willing and able to pay the extra cost.

42. More controversially, but ultimately perhaps with equal efficiency gains, user fees can steer patients from low-value and higher-cost treatments and providers to higher-value and lower-cost alternatives. This requires that the health care system render judgment about the relative merits of treatments and providers, which must be done thoughtfully and purposefully. A more limited application of the technique, if physicians are for some reason allowed to set their own fees to charge the system, would be for the system administrators to set a higher user fee for patients who choose to see a higher-cost provider.

43. As noted at the outset, current systems that are completely free and charge no user fees are precisely those that have no experience base on which to assess the potential efficiency benefit of fees, and health care providers who currently employ user fees to guide patient behaviour almost universally hold their proprietary experience close. However, healthcare systems employing the kinds of fees described immediately above find that roughly only one-third of their estimated net savings come from the revenues themselves, and about two-thirds comes from the more cost-efficient patient choices that the fees induce. Thus, looking at user fee revenue of any existing public healthcare systems would likely substantially understate the actual savings realised, and also the potential savings for currently free systems should they employ user fees. This conclusion of course assumes that user fees are designed strategically to guide patient behaviour, rather than being set mindlessly at some fixed percentage of the cost of all services. There would be a learning curve of finding the fee design that encourages the most efficient behaviour.

44. But importantly, when considering the seemingly inexorable and unsustainable rise of health care costs in total, it is precisely the changes in behaviour that can contribute most to longer-term cost sustainability. The net health care cost problem will not be solved with a continued unsustainably and exponentially rising stream of costs partially offset by a future stream of exponentially rising fees. There is much more to health care cost control, of course, including finding ways to encourage healthy choices (exercise, dietary restraint) throughout patients' daily lives, but user fees could at least push in the right direction.

45. Still, there remains the question of equity. The lowest-income households cannot afford health care user fees that pile on their problems when they are sick. At the same time, it would of course be best if even low-income households could be steered toward resource-efficient health care choices.

46. One option would be simply to excuse low-income households from all user fees. Such households would be given some form of identification to show that they were fee-exempt. There would be some administrative cost in verifying status, distributing the identification, and preventing trafficking in identification at the healthcare delivery site. There might be some concern about stigmatisation of those who are identified as lacking the ability to pay. If so, all patients could pay user fees through visually identical health care debit cards, to which affluent families would be required to make electronic cash deposits. This option would leave the identified low-income population with no incentive to alter its behaviour, however, and especially if a large portion of the population were designated as low-income, this might significantly reduce the benefit from more-efficient allocation of healthcare resources.

47. A second option would extend efficiency incentives to all households by charging user fees to all. Low-income households would receive a single purpose health care debit card with a pre-deposited balance to pay the user fees. But those low-income households would be allowed to keep all or part of the unused balance on the card at the end of the year, to encourage them to make resource-efficient choices. It would be necessary to put additional deposits on the cards of low-income households who experienced much illness or injury, so that they could continue to pay the user fees for care. Again, security of the debit cards would be important to the success of such a system.

48. There are multiple issues of fairness, and perceptions of fairness, in health care. Charging user fees might offend some people in the sense that those who are sick would be worse off financially than those who are well. Of course, either financially or in terms of well-being more broadly defined, people who are sick are worse off even if the health care is totally free (given that sickness adversely affects earning power). Still, some might be more willing to accept such ill fortune for the sick if it arises from pure chance than if it is caused by public policy. And particularly if low-income households are allowed to keep unused balances on health care user fee debit cards, there would be a public-policy-induced randomness to outcomes depending upon, for example, when relative to the borderline between years an illness happened to occur. And there would be a tension in programme design as to how much of the unused balances a low-income household should be able to keep. If the potential savings to the family is too great, the benefit to the healthy might seem unfair; but if the amount to be saved is perceived by individual households to be too small, that amount might not induce the affected families to adopt resource-efficient behaviour. Also, any return of unused balances to low-income households would be a net cost rather than a net saving toward the overall objective of reducing the budget deficit.

49. Another broad policy option toward those with low incomes to accompany any programme of user fees might be a targeted income tax cut, or a low-wage subsidy increase, that would offset part (but not all) of the newly imposed fees. However, that again would reduce the contribution of fees against the overall budget problem, and it would be essential that the tax cut or wage-subsidy increase was targeted closely to the incidence of the user fees themselves.

50. Yet another option might be to attempt to enforce efficient choices on low-income households by putting them in their own managed-care programme that would require appointment clearance by “gatekeeper” health care personnel, impose choice of generic drugs, and the like. Such a separate programme could entail stigmatisation, and forbidding

initial approaches to hospital emergency rooms might save money but also cost lives in true emergencies. Resource scarcity has no happy consequences.

51. Many of these issues appear complex and likely to cause potential inequality. But it is essential to be realistic. Exponentially growing total health care costs will be extraordinarily difficult to slow. Straightforward health care spending cuts such as reducing the number of providers, reducing the compensation of providers, closing facilities or the like will (1) save money only at the expense of the quality and availability of care, and (2) not reverse the underlying exponential growth of the cost of providing service to each individual patient. Meanwhile, demographic forces will continue to accelerate the growth of the need for care and slow the growth of the numbers of taxpayers to bear the cost. The only way to square this circle is to increase the efficiency of the delivery of care. However – no surprise – the ultimate benefit of anything that we try to do to improve health care efficiency, no matter how well it is designed, is no more predictable than product and production efficiencies in the private markets for goods and services – which is to say, not predictable at all. User fees can be one important tool in the struggle for improved health care quality and efficiency, but any move toward user fees will require careful study and design and still will be a leap of faith in the efficiency of markets (which always does seem to be the best bet available) but does not convey even the limited degree of certainty that we usually expect from budget policy. And this is especially true to the extent that user fees induce efficient behaviour which reduces outlays rather than contributing user fee revenues, because the latter are easily countable, but the former decidedly are not.

## 1.5. Education

52. Universal education is a pillar of free societies. Citizens must be informed if they are to fulfil their civic obligations – ranging from making judgements in elections to reading and obeying traffic signs. And if for this reason education is to be compulsory, it is not a long leap to conclude that it must be free.

53. This argument of course was born with elementary education, and then extended to secondary education, the two levels of schooling most clearly linked to the knowledge and socialisation needed for constructive participation in society. But it is beginning to be extended from the elementary and secondary levels, where education is available for free almost universally (although privately paid education is also generally allowed), to the tertiary (sometimes called postsecondary) levels, where payment of tuition is required in most countries. The same argument is sometimes extended in the other direction, to the pre-elementary levels, as well. Each of these levels of education raises its own issues, but aspects of all education should at least be considered with respect to user fees.

54. **Tertiary Education.** Some argue that the development of our societies has rendered tertiary education just as fundamental to citizenship today as were elementary and secondary education a century ago. These convictions are driving proposals to make at least two years of college available for free.<sup>7</sup> But on the other side, many scholars would argue that there are still substantial private returns (in the form of higher future earnings) to postsecondary education for which attendees arguably should pay. Those experts might argue further that “college is not for everyone,” citing both conspicuously successful college dropouts and the availability of good-paying technical service jobs (electricians,

---

<sup>7</sup> From the United States: “The Budget also expands free community college across the Nation through a new Federal-State partnership. To lay the groundwork for this programme, the Budget includes \$500 million in a new discretionary grant programme to provide two-years of free community college for students enrolled in high-quality programmes that lead to a four-year degree or a good-paying job.” *Budget of the United States Government: Fiscal Year 2024*, p. 69. [https://www.whitehouse.gov/wp-content/uploads/2023/03/budget\\_fy2024.pdf](https://www.whitehouse.gov/wp-content/uploads/2023/03/budget_fy2024.pdf).

plumbers, etc.) that are well within reach of many students who would not be well suited to college. These experts might add that compulsory or even voluntary free college would require substantial additional investment in personnel, buildings and equipment, would require rationing of scarce education capacity until more could be acquired and built, and would waste enormous amounts of resources, including years of attendee participation in the workforce.

55. Tertiary education has become a major cost driver for many governments or families, depending upon the education finance structure of the nation in question. Higher education is highly labour intensive, and productivity growth to date has been limited and uneven; and so costs have risen at an alarming pace in some countries. In theory, technology could be used to convey knowledge, including through digital remote video classrooms, distribution of text materials, and submission and even grading of assignments. In practice, employers are uncertain of the value of non-traditional postsecondary education, whereas older traditional institutions, which rely on the “laying on of hands” rather than new digital productivity enhancements, are more known and trusted.<sup>8</sup>

56. National systems for the financing of tertiary education are dizzyingly diverse. There are different divisions of the tertiary education sector between public and private institutions. Some nations do not charge tuition. (Non-national students are often treated differently in this respect from national residents.) Where tuition is charged, the amounts may or may not be regulated. Some nations provide financial aid for even non-tuition expenses; others do not. Tuition (and other) aid is divided among grants based on academic merit, grants based on financial need, and loans, in different mixes and proportions from country to country. Loans may be repaid on normal financial or income-contingent bases. Interest rates range from zero to subsidised to market levels. Interest charges may or may not be forgiven during schooling or for some duration thereafter.

57. In some nations, tuitions are used as a steering device for the choices of fields of study. Tuition may be set lower in fields where the costs of education are lower; they may be lower to induce students to enter fields that are perceived to be undersubscribed, which may or may not reflect the prospective earnings in the particular field. Or tuitions may be reduced to lead students to enter fields on which the nation sets a high priority for research, and tertiary education institutions may or may not be used as vehicles for such research. The funding of research itself is a kind of random, non-educational element in the budgets of institutions of tertiary education, and in the tertiary education budgets of nations.

58. Thinking of the tertiary-education financing system of any given nation as a combination of check-the-boxes choices among all of the elements enumerated above (and more) illustrates the potential variation among those systems; and the reality is that the actual variation fully lives up to its potential. And it follows from this multiplicity of parameters that no one indicator necessarily expresses the generosity of a system. So for example, a system that charges significant tuition but offers large amounts of financial aid (which could include loans on highly favourable terms), not only for tuition but also for non-tuition costs, might be fully as generous as another with lower stated tuition but limited aid. And it could be misleading to consider tuition nominally paid by students and their parents to be burdensome if those payments are subsidised by any forms of public aid.

---

<sup>8</sup> Attempts to create credentials to facilitate education productivity improvement and provide students with documentation of their skills have met with limited success. Jon Marcus, “Credential chaos: Growing “maze” of education credentials is confusing consumers and employers,” Hechinger Report, December 24, 2021 <https://hechingerreport.org/credential-chaos-consumers-employers-struggle-to-make-sense-of-a-maze-of-education-credentials/>.

59. On that one side of the figurative coin of tertiary-education finance is what the student (and the nation otherwise) pays; on the other side is what the student gets. Labour market conditions change constantly, but still graduates of tertiary education receive significant returns on whatever financial investments they may be required to make. This is true both in terms of employment rates, and amounts of earnings given employment status. There are concerns that today's rising numbers of young workers with tertiary credentials will dilute their earnings advantage; but validation of those concerns is confounded by the longstanding regularity that returns to education tend to increase with age, and so only the passage of time will truly tell. Still, recent data indicate that any reduction in the relative earnings of young, educated workers must be quite small. A further concern that returns to education may be disrupted in the wake of the pandemic cannot yet be verified.

60. Thus, even if there are significant social returns to tertiary education – in terms of citizenship skills, reduced social costs of unemployment, or external benefits of an educated workforce in the forms of technological progress to be shared by all – there are also private returns in the form of higher earnings. Thus, the private returns are likely to continue to attract qualified candidates into higher education, and it would be fair for society to expect those who benefit to pay a substantial share of the costs.

61. That reality, plus the rapidly growing cost of higher education, dictate that even countries that see no-cost higher education as a communitarian value or the birth right of citizenship must at least consider charging user fees for those who enjoy personally beneficial tertiary schooling. As a first approximation, given the complexities of the various national financing systems, those nations that spend the most public funds would be the best candidates for “progressive spending” on tertiary education.

62. There are several ways in which forms of user charges for tertiary education can be, and in some instances are being, implemented in real time. Parents can be charged income-conditioned tuition with assessments calculated through the income tax system. If parents have no ability to pay, students could in effect be given loans which could be repaid after they left school on an income-contingent basis. Students or their parents could also be assessed for housing and incidental expenses, again on an income-conditioned basis.

63. One necessary caution is that any increases in student costs must not further inhibit qualified low-income students, especially those who have no family members who have completed tertiary education, from attending. It is a risk, even a blind leap into the unknown, to commit future income while forgoing current work to pursue an opportunity that they may well not fully understand. Beyond targeted grant aid for low-income, first-in-family college attendees, there is a need for guidance counselling support before and even during school attendance to allay fears and facilitate sound education and career choices. (Also needed in some countries will be consumer protections to prevent exploitive institutions from taking advantage of any additional financial assistance that might be committed to expand opportunity.)

64. **Earlier Years of Education.** By far the greatest opportunities for targeting spending and achieving efficiencies in education arise at the tertiary level. However, there is reason to examine earlier levels, especially early childhood education (ECE).

65. ECE can be vital to life prospects, including success beginning in elementary school. Furthermore, preschool education of very young children at risk of poor preparation for elementary school can provide significant equalisation of opportunity. And availability of ECE can be essential for some working parents.

66. The vast majority of children ages three to five are enrolled in ECE. In more than half of OECD countries, enrolment is almost universal (more than 90 percent). However,

as the differences in those figures suggest, some countries lag well behind. And enrolment of children before age three can be just as important, and lags well behind.

67. There is reason for concern about access to ECE, beyond its manifest value to children. Troublingly, enrolment appears to be lower for at-risk children – precisely those who would most suffer from entering elementary education a step behind their peers, and who would be most likely not to catch back up.<sup>9</sup> For this reason, free or highly subsidised preschool should be of the highest priority for low-income households, while more-affluent households could be assumed to pay for preschool without a subsidy, or to provide high levels of experiential learning in the home.

68. If efficiencies are needed to expand or at least maintain access for at-risk children from low-income households, it would be relative relatively simple to charge parents an income-conditioned tuition. For many upper-income two-worker couples, such a charge would be little more than a fee for childcare.

69. **Elementary and Secondary Education.** The elementary and secondary years of education are of course compulsory. The rationale is that such education provides the knowledge base for good citizenship, and thus is a public good; and that there is a communitarian value in all students having a shared common experience in key public values. This rationale replaced a perspective implicit in our societies more than a century ago, when elementary and secondary education was optional, that the communitarian value of citizenship training and education was dominated by the augmentation of personal earning power through such education. Today, in the views of most observers, that calculus is reversed.

70. Households who “opt out” of free public education by sending their children to fee-based private schools are not relieved of the progressive taxes that finance the public schools. Thus, one might argue that elementary and secondary education already conform to a user-fee or means-tested model. (Households without children pay the same taxes, indicative of the sense that elementary and secondary education is an essential building block of a healthy society for all.)

71. However, there are some necessary expenses of elementary and secondary education that are arguably personal in nature that could be subjected to user fees which could be graduated by ability to pay. Textbooks and other materials could be financed by fees. Meals are sometimes provided by schools, and for very-low-income families a free meal or two each day may be the only protection against actual hunger for the worst off. Charging each student a cash fee for each meal on a means-tested basis has been criticised as stigmatising those students who are given some form of voucher to present at school instead of cash. However, payment can be required by parents outside of the school day and can be assessed according to ability to pay while providing all students with the same identification – for example, using electronic debit cards that are provided balances through cash payments from the affluent families but at no charge to low-income families. This could make all students indistinguishable from one another at the end of the cafeteria line.

---

<sup>9</sup> Organisation for Economic Cooperation and Development, *Education At A Glance 2022*, discussion of Indicator B2; Flisi, S. and Z. Blasko (2019), “A note on early childhood education and care participation by socio-economic background”, *JRC Science for Policy Report*, Publications Office of the European Union, Luxembourg; OECD (2017), *Educational Opportunity for All: Overcoming Inequality throughout the Life Course*, Educational Research and Innovation, OECD Publishing, Paris, <https://doi.org/10.1787/9789264287457-en>.

## 1.6. Other public programmes

72. However, the need for user fees does not stop with the textbook case of government provision of goods and services under conditions of rising economies of scale, or with all of the progressive spending applications in place today. Fiscal pressures are heavy enough that even smaller opportunities for greater targeting of public resources must be pursued. And it is easy to overlook changes in our circumstances that require changes in policy. As just one example, the evolution of the global economy may call for new or increased user fees. With increased globalisation of production and trade, government is more involved with international commerce and finance in many respects. Government-to-government interactions are necessary for trade agreement negotiations, customs clearance, public health protection, and services to facilitate permitting, licensing, and other aspects of overseas operations. Governments provide support in trade promotion and tourism. Government can and should (and in at least some instances, does) charge for the value of such services that government alone can provide. Such charging must be undertaken efficiently.

73. The appropriateness of fees for such government services will be subject to dispute. Some might argue that fees for services in pursuit of foreign trade will reduce business efforts to export, especially for smaller businesses exploring export opportunities speculatively or for the first time under great uncertainty, or firms in fully competitive industries where economic profits have been bid away. Fees for tourism promotion might be difficult to assess accurately where the economic benefits are widely diffuse among small retail and hospitality business providers and are difficult to measure. In all of these instances, fees might be considered self-defeating by countries whose neighbours would provide such services for free as a subsidy to their domestic businesses. Still, there is little question that such fees would be appropriate for larger firms with some market power. Even for firms subject to perfect competition, the expense of such government service is surely a valid cost of doing business. Fees for new exporters could be deferred or contingent. Fees for tourism promotion could be assessed through local government and based on changes in sales or property values.

74. **Natural Resources.** A second class of potentially underexploited fees for government production is natural resources. Public lands, including offshore areas within national control, can be essential sources of minerals, or of space needed for generation of wind or solar renewable energy. Public lands can be essential for animal grazing. Public lands can provide natural beauty that is the essence of national or sub-national parks and recreation. Owners of private lands would charge for such resources or services. Again, if user-taxpayers are under the mistaken impression that such resources are free, they will demand more of them than is efficient, including that users who place a comparatively lower value on those services may crowd out those who value them more highly but have no way to signal their higher demand.

75. To some, public land and even natural resources may be seen as the birth right of the citizenry, and imposing charges for their use might seem to violate that important principle. For example, ranchers may believe that public grazing lands belong to them as citizens, and therefore may believe that charging for their use violates their fundamental rights. Of course, the rational answer to such an objection would be that those lands also belong to all other citizens, and so there must be an adjudication of which citizens may use them. Another potential objection might be against charging for the use of parks and recreational facilities specifically if there are concerns that lower-income households might be deterred from experiencing their natural birth right. Of course, low-income households are restricted in their enjoyment of private goods and services as well, including even the

necessities of life, and the concern is surely more in their restricted access to all goods and services than simply in their access to public parks and recreational facilities. The proper remedy is surely addressing income inequality in the broadest sense.

76. There may be some entirely new opportunities in this area. Government costs today might be zero if government is simply giving away such public national resource wealth. But on behalf of the taxpayers at large, government should charge users of those public resources as would private owners of such resources. Imposition of such user charges would encourage the efficient use of such resources by steering them to the users who could extract the greatest value from them. At this time, some public resources may be used by the private sector – by households enjoying recreational facilities, or by businesses exploiting resources on public lands, for example – with no cost recovery at all. Every national situation will prove unique. Different nations will have different amounts of such endowments. And there are natural resources of all types that are cheap and easy to extract, and there are identical resources that are expensive and difficult. Fees for all should be derived according to market values, but those values will be hard to predict. Still, identifying the opportunities is worth the effort.

77. **Roadway Networks.** The issue of financing roadway networks is particularly timely because of remarkable technological developments. Motor fuel taxes often play an important role in highway financing. The rapid current adoption of electric-powered vehicles could render that financing source virtually obsolete within just a few years. But even before the rush to electric vehicles, some policymakers raised questions about the fairness and efficiency of a tax based on fuel consumption, given that more-fuel-efficient vehicles wear down the roadways virtually as much as internal combustion vehicles that are more fuel efficient. High-powered electric vehicles can wear roadways even more. Already, improving internal-combustion-vehicle fuel efficiency threatened the adequacy of the fuel tax base for highway construction and maintenance. This can be a pressing reason to re-examine the current portfolio of user fees, both for budgetary adequacy and for efficiency; some experts believe that the technology to charge a user fee on the basis of distance driven is already more than adequate.

78. **Research and Development.** Another potential application of user fees could be funding government expenditures on research and development. Public R&D has long been considered a public good, providing knowledge that is useful throughout the economy, and from which potential users cannot be excluded because of the generic nature and the inherent transmissibility of that knowledge. That traditional interpretation remains widely held. However, in a global economy with increasing manifestations of market concentration and monopoly or oligopoly market power, it may be that the benefits of public R&D are not being spread throughout the economy, but rather are being appropriated by already successful private businesses who achieve first-mover benefits, or who use their deep pockets to acquire technological upstarts before they can pose a competitive threat. To the extent that this is accurate, user fees in the form of business licenses and payments of royalties for the application of publicly funded technologies might be appropriate.

79. **Cybersecurity.** Yet another potential application of user fees lies in the complex issue of cybersecurity. Cybercrimes are difficult to attribute, because the medium facilitates anonymity, and crimes in one locality can be committed anywhere else in the world. Some instances are surely simple cases of what amounts to personal theft. But other perpetrators have been identifiable as state actors, or as individuals sponsored by states and seeking state objectives in whole or in part – where those objectives could include disrupting a rival nation’s economy, or its infrastructure, or holding it hostage to those or other threats. Honourable firms might simply be expected to finance their own cybersecurity. But even many medium-sized firms lack the economies of scale to do so effectively. Furthermore, a

firm that has been attacked successfully has a strong incentive to conceal the attack, in fear of reputational risk with respect to customers and clients. Silence about current successful attacks prevents other potential targets from learning of those new threats. To obtain the leverage of government in dealing with state-executed or -sponsored cybercrime, including to infrastructure or other national values; to achieve economies of scale in security and to share knowledge about new threats; and perhaps to provide insurance against large losses in partial exchange for transparency about new and innovative attacks, there could be a role for government to participate in a national strategy for cybersecurity, and to charge for its contribution to the effort.<sup>10</sup>

80. But again, beyond these fields, a user-fee or means-testing policy that makes a substantial dent in the fiscal shortfall must go where the money is. And that suggests three components of government services with the most rapidly rising costs: education, health care, and retirement. These three functions have among the strongest communitarian rationales of all government programmes. Still, the damaging and growing fiscal gap may require that government rethink and perhaps persuade and lead on these targets of user fees and means testing.

81. In sum, the merits of user fees today are by no means limited to their contribution toward fiscal stability. However, if fiscal stability should motivate the consideration of new applications of user fees, the ultimate benefit to nations and taxpayers could prove to be above and beyond what was originally bargained for – in the form of an improved allocation of resources in the economy, also perhaps described as a greater productivity of the resources deployed by the public sector.

## 1.7. Conclusions

82. Reducing fiscal imbalances is an international imperative. Just as extraordinary circumstances such as the financial crisis and the pandemic contributed massively to the worsening of the problem, so those circumstances distracted the financial markets from its longer-term implications. In that sense, the gradual return of normality is in some respects bad news. It is as though our global economy is awakening from a bad dream, only slowly to realise that at least one part of that nightmare – the massive accumulation of burdensome debt – had actually occurred while we slept.

83. And that accumulation of debt is indeed massive. Debt in most nations has reached levels that would have been unimaginable – if not terrifying – two decades ago. Only the risks of financial crises and pandemics in the intervening years have numbed us to the building perils of debt.

84. Many nations' bodies politic are polarised – with almost half of the citizenry refusing to raise taxes, almost half unalterably opposed to cutting spending, and the balance of power in the hands of a third group that rejects both. Any device to break the logjam would be welcome.

85. There is reason to believe that user fees and means testing could contribute to a solution. Given the magnitude of the problem, only a truly serious approach to targeting public spending will do. National fiscal systems and government establishments differ widely, and thus, the potential for budgetary savings through means testing and user fees will differ as well. But for many nations, there are real opportunities. Many national retirement systems have traditionally been funded in the long run, but are not today in the

---

<sup>10</sup> Michael G. Archbold, Hollis W. Hart, and Joseph J. Minarik, *Smart Regulation: Changing Speed Bumps into Guardrails*, The Conference Board, 2019, chapter 7.

wake of demographic transitions, and could provide an independent rationale for substantial fiscal consolidation through means testing. Slowing the runaway growth of healthcare costs through structural reforms, including market-based incentives embodied in user fees, could have a large and growing impact on sectoral costs with consequent overall fiscal relief. Natural resource fees yielding environmental benefits, and highway user fees that fund infrastructure rehabilitation more fully than today, could also be part of a co-ordinated programme. It is an opportunity worth exploring.

86. The benefits could materialise in unexpected ways. As was noted above, user fees can be designed to reduce, or may have the unwitting effect of reducing, underlying budget outlays to a degree even greater than an increase in receipts. The earlier discussion cited the potential role of well-designed user fees to reduce demand for low-value health care services, such as visits to emergency rooms for routine problems, or professional appointments for ailments that could be effectively addressed by self-medication. A fuel tax designed as a user fee for highways may have a subsidiary effect of discouraging driving, perhaps intentionally in the pursuit of reductions of emissions as well as roadway wear and tear. A user fee that purposefully and perfectly deters the demand for a particular class of service not only reduces the corresponding outlay, but also is of course never paid in the first place. (As one imperfect example, the excise tax on tobacco in the United States was increased sharply, and had a powerful, and intended, effect on consumption; in so doing, it held down the amount of revenues collected.) Thus, one might examine a budget document and conclude that the user fees that are in fact the most powerful are very little employed. Therefore, tracking the current use of user fees might be an exercise for a budgetary “bean counter,” but it will be impossible to count such “might-have-beans” without highly sophisticated analysis. Thus, the consideration of a proposed new user fee must include the public’s behavioural response.

87. User fees can have benefits that are not budgetary at all. A user fee might reduce negative externalities, such as the imprecise example of the excise tax on smoking, and in that way might make society better off; but by reducing the use of the activity that causes the negative externality, it might underproduce expected revenue, and might have only a limited impact on outlays as well. For example, the reduction in smoking had only a limited short-term impact on the rate of growth of public health care expenditures, and by extending lifespans it may actually increase public retirement payments in the long run. But few would challenge an initiative with such massive benefits to the public’s health and well-being.

88. Thus, there are many reasons to increase the targeting of public spending – to improve the allocation of resources, raise the quality of life, and promote equality, among others. But applying current best practices and evolving even better ones could also help to address the threatening budgetary imbalances and the resulting build-up of debt, perhaps ultimately above all other objectives. Exploiting these opportunities for improvement could be very constructive – perhaps essential – at this difficult time.