

[Against hypothecation](#) [1]

Written by [Tim Worstall](#) [2] | Tuesday 27 May 2008



There's been a recent revival of the discussions about the hypothecation of tax revenues and as I never tire of telling people, it's a bad idea. For there is no logical connection between how much you can raise from taxing an item or activity and how much you might want to spend on that or any other problem, whether related or not. Another reason it's a bad idea pops up [here](#) [3]:

One-sixth of all the national lottery money earmarked for good causes is being spent on bureaucracy, including one quango that has more staff than the Treasury.

New figures reveal that more than £200m a year is being swallowed up in administration and staffing costs at lottery distributors ? up to six times the proportion spent on overheads by some leading charities.

The connection is that these groups (like the Big Lottery Fund) have in effect hypothecated funds. They get a set proportion of the money raised but do not have any pressure on them from outside to increase their efficiency. Given that their funds come from that tax on stupidity (if you prefer, ignorance of odds) that is the lottery, they don't have to compete for the cash. Given their entire insulation from the market there is also no pressure from elsewhere. Now that is so far true of all bureaucracies, but with hypothecated funds it is worse. For at least if the money is being doled out of the Treasury's one big bucket then there is a certain amount of pressure from the same Treasury for accountability and economy in the administration. Not much, I agree, but at least some, even if it is only from the covetous glances of others hoping to be fed from the big bucket.

With hypothecation there is a complete absence of this pressure and thus anything funded in this manner, accountable to no one and competing with no one, is bound to become increasingly inefficient.

My history knowledge is woefully incomplete but I do dimly recall that we fought a fairly bloody internal war a few centuries ago and that one of the triggers was Parliament's insistence that the Monarch had to be dependent upon said Solons for money and to account to them for how it was spent. And that if it were ill spent that no more would be forthcoming. As with the Monarch, why not so with a bureaucracy?

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