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GEORGE MASON UNIVERSITY

From the desk of Hon. Maurice McTigue

## Applying Full Cost Recovery in Government Budgets

Preamble:

When governments make decisions about requiring a certain procedure, a license, a permit or an authorization then the next logical decision should be how this service or process will be funded. There are basically two choices for funding the taxpayer or the user/consumer of the service. Theoretically the decision should be based on who benefits. If the new activity is entirely a public good then it is the taxpayer who should pay. When it is a private benefit then the user consumer should pay. Then on other occasions the cost might be apportioned between the two when there is both a public and private good. Ultimately it is a political decision to determine the means of funding the activity. Often at the time of making the original decision there are vested interests at work trying to move the cost to the taxpayer. It is in my view a quite legitimate budget practice to test these decisions from time to time and is often as much matter of equity to shift cost from the taxpayer to the user or vice-a-versa as it is a mechanism to diminish budget expenditures.

In the analysis I have done for the Streamlining Commission, I have made a large number of recommendations that certain goods and services should be subjected to "full cost recovery". I use the term "full cost recovery" very deliberately because I wish to distinguish this process from the concept of "fees". I wish to make the distinct differentiation between the concept of "cost" and the concept of "fees". The concept of "cost" includes all of the expenses that were incurred in providing the service or goods but absent any profit or reward. The concept of "fees" is best compared to the standard practice of lawyers, accountants, architects, doctors or engineers who charge us for their services through a schedule of "fees" and these are clearly inclusive of both the costs incurred and reward. For the public to accept this process of "cost recovery" then they need to believe that there is no reward or profit in the costs they have to pay for these government services. The credibility of this process is entirely dependant on the level of transparency and authentication that is used in calculating the costs imposed.

I have posed this question when looking at a number of activities and concluded that there are currently a significant number of activities in the Louisiana Budget that should really be paid for by the users and consumers of those services. I also understand the concerns that will be raised as the public views this process with some cynicism so I have also outlined a set of the criteria that should apply to "full cost recovery".