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THE POLITICAL ECONOMY OF TAXATION

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INTRODUCTION

Cicero called taxes “the sinews of the state” pointing to the crucial role they played in the Roman Empire. Others before him and since have expressed similar sentiments. Governmental action requires economic resources, and taxation has been the most common way to acquire them. As Cicero’s well-chosen image suggests, the body politic cannot flex its muscles without taxing the private sector. Although preferred means of taxation have changed over time, governments have always had a variety of tax instruments at their disposal. The modern literature often refers to broad classes of instruments, such as direct or indirect levies, but it also contains a large amount of descriptive material on particular types of taxes, such as those on personal or corporate income. Nor is it always clear what should be called a tax and whether the term should be defined so as to include phenomena such as the deliberate debasement of the currency practiced from time to time by autocratic rulers and democratic governments. History suggests however that the choice of and among tax instruments has always been largely a political decision, although economic factors will usually be taken into account. We shall define the term “political economy of taxation” with reference to the study of such decisions. We focus on that part of the vast literature that tries to explain how fiscal systems and instruments are chosen in a political and institutional context. At the same time, important topics, such as the relation of war to taxation, will also be highlighted, even though the relevant literature may not always have a strongly analytical character. This annotated bibliography is not directed to the purely economic analysis of taxation which still makes up the primary body of the tax literature published by economists, and topics such as tax incidence and excess burden will not be dealt with in detail. The focus on the choice of policy instruments under various political and institutional arrangements is made possible by a nascent literature that creates a direct link between collective choice models and the composition of public revenues in democratic countries. Some of these attempts can furthermore be generalized to non-democratic regimes and work can be tested empirically in both contexts. The new direction in the field holds out great promise, since it allows researchers to link theory and empirical tests in a concrete manner and to give political fiscal analysis a firm foundation.

BACKGROUND: TAXATION, TAX SYSTEMS AND TAX REFORM

Revenue systems consist of a variety of taxes, with each one causing its own set of economic and distributional consequences. In constructing and changing fiscal systems, policy makers must evaluate the size and interaction of such effects. Further complexity is added since each tax has its own structure, including a base on which the levy is imposed, a schedule of rates that is applied to the base, and a series of special provisions, including exemptions and deductions (sometime called loopholes) that may apply selective rates to components of the base and that may hollow out the base in other ways, thus leading to a divergence between nominal tax rates and the effective rates of tax on a given base. This suggests that a complete political analysis must have these components: (1) A discussion of the economic effects of particular taxes and of how they influence political support, (2) an examination of how

political support can be adjusted by varying the combination of taxes and their structure, and (3) an understanding of how support is influenced by the size of overall budgets. Here the major economic ingredients going into a political analysis are provided together with some works providing a more general background. The section includes three works introducing the reader to economic analysis of taxation (Rosen and Harvey 2010, Bénassy-Quéré, Coeuré, Jacquest and Pisani-Ferry 2010, and Salanié 2011), an early classic in the study of tax systems over time and across countries (Musgrave 1969), a discussion of current international variations in revenue systems (Tanzi 2011), as well as research on the treatment of particular groups, such as the rich (Atkinson, Piketty and Saez 2010) and on new behavioral approaches to fiscal analysis (Congdon, Kling and Mullainathan 2011). Economic arguments about tax 'reform' (which in a political economy context may be regarded just as 'changes' in the tax system) are provided in a mostly non-technical manner in Slemrod and Bakija 2008. Work on how the economic effects of taxation are evaluated in political terms by political parties and voters is discussed in later sections.

Atkinson, A.B., Thomas Piketty and Emmanuel Saez. 2010. Top Incomes in the Long Run of History. In Atkinson and Piketty (eds.). 2010. *Top Incomes: A Global Perspective*. Oxford U.K.: Oxford University Press. 664-757

Summarizes the work of these authors and of others in this and its companion volume (*Top Incomes Over the Twentieth Century*) on the evolution of top incomes around the world over long periods of time. This interesting chapter speculates about the role of progressive taxation, and the role of political economy, in the search for an understanding of the history they document.

Bénassy-Quéré, Agnès, Benoît Coeuré, Pierre Jacquest and Jean Pisani-Ferry. 2010. *Economic Policy: Theory and Practice*. Oxford U.K.: Oxford University Press. Chapter 7: Tax Policy. 537-616.

A concise, somewhat more advanced, though largely non-mathematical introduction to theory and current policy ideas with respect to taxation, nicely integrated with useful references to data describing contemporary aspects of actual tax systems and their recent evolution in the E.U. and in the O.E.C.D.

Congdon, William J., Jeffrey R. Kling and Sendhil Mullainathan. 2011. *Policy and Choice: Public Finance Through the Lens of Behavioral Economics*. Washington D.C.: Brookings Institution Press. Chapter 7: 173 – 200.

Provides an introduction to the ways in which behavioral economics is leading to insights about how people adapt to taxation. Also includes some consideration of political economy issues.

Musgrave, Richard A.. 1969. *Fiscal Systems*. Yale University Press.

A pioneering study of tax and revenue systems, fiscal development, comparative analysis of tax structure across countries, and of political and economic system differences (capitalist versus socialist). It examines specific factors influencing tax structure over time, emphasizing 'tax handles'. Written by an important fiscal theorist and empirical researcher of his generation and filled with interesting ideas ahead of their time.

Rosen, Harvey S. and Ted Gayer. 2010. Public Finance. McGraw-Hill Higher Education.

Introduction to public economics for undergraduates. Includes two crucial concepts: tax incidence - the distribution of tax burden, which depends not only, or even mainly, on who pays the tax to government; and the deadweight loss or excess burden - the loss in well-being from behavioral adjustments made by taxpayers to reduce their tax liabilities, a loss over and above what is collected.

Salanié, Bernard. 2011. The Economics of Taxation. 2nd edition. Cambridge Mass: MIT Press.

An elegant, advanced introduction and overview of the economic theory of taxation.

Slemrod, Joel and Jon Bakija. 2008. Taxing Ourselves: A Citizen's Guide to the Great Debate Over Tax Reform. 4th edition. Cambridge Mass: MIT Press.

A non-technical and comprehensive introduction to the economic issues that arise in debates over tax reform, focused on U.S. issues. Also includes an overview of the contemporary U.S. tax system with some comparison to other advanced democracies. See also *Tax Reform*.

Tanzi, Vito. 2011. Tax Systems in the O.E.C.D: Recent Evolution, Competition and Convergence. In Emilio Albi and Jorge Martinez-Vazquez. The Elgar Guide to Tax Systems. Cheltenham U.K.: Edward Elgar

A useful overview of contemporary tax structures in OECD countries, with emphasis on the growing reliance on consumption taxation, the flattening of nominal personal tax rate structures, and the decline in effective corporate tax rates. Special provisions are not covered because they are so complicated and vary so widely from country to country, though a continual increase in tax complexity is documented.

RESOURCES

The political process of tax reform often starts with a government proposal, which is typically prepared by a special commission. Then the Report of the commission is discussed in the ensuing political and economic debate. To understand the background to taxation and tax reform, knowledge of these

commissions or special reports along with background data are essential. In this section we introduce seminal tax commissions and important sources of data on taxation.

Tax Commissions

When major tax reform or, more descriptively, a major change in the tax system, is thought to be desirable or necessary, it is often preceded by a special commission, in part because of the complicated or technical nature of many issues associated with substantial changes in the tax system. Even though they rarely deal with political economy issues directly, these reports, and the reactions to them by different sectors of the economy and groups of taxpayers, provide a wealth of useful information for anyone interested in the political economy of taxation. The choice of the major basis for direct taxation of individuals, the progressivity of tax rate structures, and the degree to which capital income should be taxed, are the main issues the reports deal with. The following commissions have been or are likely to become influential and are all worthy of scrutiny: Australia's Future Tax System 2010 (the Henry Report, Australia), Report on Japanese Taxation by the Shoup Mission 1949 (The Shoup Report), The Royal Commission on Taxation 1966 (the Carter Report, Canada), The Structure and Reform of Direct Taxation 1978 (the Meade Report, United Kingdom), Reforming the Tax System for the 21st Century 2010/11 (the Mirrlees Review, United Kingdom), and Tax Reform for Fairness, Simplicity, and Economic Growth 1984 (the Treasury Department Report to the President, United States). See also the section on *The Politics of Tax Reform*

Commonwealth of Australia. Australia's Future Tax System. Final Report (The Henry Report). 2010.

Available online at: [*http://www.taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm*](http://www.taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm)

The Australia's Future Tax System Review was established in 2008 to examine Australia's tax and transfer system, including state taxes, and make recommendations to meet the challenges of the 21st century. Major recommendations include the taxation of natural resource rents using an Allowance for Corporate Equity System that is supposed to be neutral with respect to business decision making.

General Headquarters, Supreme Commander for the Allied Powers, Tokyo Japan. 1949. *Report on Japanese Taxation by the Shoup Mission. Available online at:

[*\[http://homepage1.nifty.com/kybs/shoup/shoup00.html\]*](http://homepage1.nifty.com/kybs/shoup/shoup00.html).

The report shows the centrality of taxation in the life of the nation. From the Conclusion: "The basic task facing Japan under the income tax is that of building the entire machinery necessary to administer a modern income tax law applicable to many millions of taxpayers. The task is one of major magnitude... "

Government of Canada. 1966. The Royal Commission on Taxation (the Carter Report). Ottawa: Queen's Printers.

The most important tax commission embodying the Schanz-Haig-Simons view that a broadly based personal income tax, in which all sources of income are treated equally, constitutes the best tax system. Gave strong impetus to those advocating base broadening and removal of tax expenditures or special provisions, features that are often regarded as hidden means by which politically influential groups are favored. See also *Henry Simons* and *Tax Expenditures*.

Institute of Fiscal Studies. 1978. (The Meade Report). The Structure and Reform of Direct Taxation. London: George Allen and Unwin.

Major contenders for the personal tax base are comprehensive income, and consumption. The Meade Report, building on ideas by Kaldor and others, provides a careful discussion of, and argument for, progressive expenditure taxation as a basis for economic efficiency and equity among taxpayers. Available online at: *[<http://www.ifs.org.uk/publications/3433>]*.

Institute of Fiscal Studies. 2010/2011. The Mirrlees Review: Reforming the Tax System for the 21st Century. Part I: Stuart Adam et al (eds.) 2010. Dimensions of Tax Design. Oxford University Press.

The Mirrlees Review is in two parts. Part one consists of chapters studying various aspects of the tax system. Of special interest here is *Chapter 13 by Alt et al* on political economy issues.

Institute of Fiscal Studies. 2010/2011. The Mirrlees Review: Reforming the Tax System for the 21st Century. Part 2: Stuart Adam et al. 2011. Tax by Design. Oxford University Press.

The second volume of the Mirrlees Review presents the committee's preferred tax design, including a tax on income that exempts a 'normal' return to capital. Available online at: *[<http://www.ifs.org.uk/mirrleesReview>]*.

United States Treasury. 1984. Tax Reform for Fairness, Simplicity, and Economic Growth: The Treasury Department Report to the President.

Developed under the direction of Charles McClure, advocating broadly based income taxation rather than consumption taxation, and a major source of the 1986 U.S Tax Reform Act. McClure later identified the lack of political will to include taxation of inheritances and bequests together with consumption, as the reason for the report's orientation toward the income tax. Available online at: *[<http://www.treasury.gov/resource-center/tax-policy/Pages/tax-reform-index.aspx>]*

Sources of Tax Data: International Panel Data, Statistics and Government Reports

The development of empirical political economy has been helped substantially by the relative abundance

of good data on tax systems. The abundance of data, when compared to other aspects of government, is a product in part of the need for measurement of tax revenues collected by governments around the world, in part of the requirement for keeping tax administration honest, and in part by the need for government planning. *Tax commissions* and ministries of finance in specific countries are also a rich source of data on fiscal systems.

International Panel Data

The following useful international panel data sets are listed here along with their URLs: the CESifo 'DICE Database'; Eurostat, 'Taxation Trends'; the IMF 'Government Finance Statistics Yearbook'; the OECD 'Tax Database'; 'The World Top Incomes Database'; and 'Top Marginal Tax Rates on Wealth.' Tax Notes International also publishes informative articles on taxation around the world, such as the recent contribution by Owens 2012 on global trends.

CESifo DICE Database

Database for institutional comparisons in Europe. It contains cross-country information on institutions, regulatory systems, legal requirements. It also contains data on the economic effects of institutions and regulations. Available online at: [*http://www.cesifo-group.de/ifoHome/facts/DICE/Public-Sector.html](http://www.cesifo-group.de/ifoHome/facts/DICE/Public-Sector.html)].*

Eurostat, Taxation trends

For EU member countries, this data base provides fiscal data on indirect taxes (VAT, excise duties and others), direct taxes (personal and corporate and other) and social contributions (employers, employee, self and not employed). Available online at: [*http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm](http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm)].*

IMF, Government Finance Statistics Yearbook

For IMF countries, providing fiscal data in national currencies on tax revenues and tax structure: taxes on income, profits and capital gains (individual, corporate and others), social security contributions (employers and employee), taxes on payroll and workforce, taxes on property, domestic taxes on good and services (excises and VAT), taxes on international trade and transactions (import and export, other taxes). Available online at: [*http://www.imf.org/external/data.htm](http://www.imf.org/external/data.htm)].*

OECD, Tax database

For OECD countries, providing statistics on taxes on income, profits and capital gains, on payroll

and workforce, property, goods and services, and other taxes, personal income tax rates, social security contribution rates, the tax burden on wage income, non-compulsory payments, corporate tax rates and the top tax burden on dividend income, the rates of value added tax and their registration thresholds. Available online at: [*\[http://www.imf.org/external/data.htm\]*](http://www.imf.org/external/data.htm)

The World Top Incomes Database

Collected by Facundo Alvaredo, Tony Atkinson, Thomas Piketty and Emmanuel Saez. Available online at: [*\[http://thedatahub.org/dataset/world-top-incomes-database\]*](http://thedatahub.org/dataset/world-top-incomes-database).

Top Marginal Tax Rates on Wealth

Collected by Kenneth Scheve and David Stasavage. Available online at: [*\[http://isps.research.yale.edu/data/D076/\]*](http://isps.research.yale.edu/data/D076/).

Statistics and Government Reports

The central governments of many countries produces statistics and reports on their tax systems. The reports are typically written in the country-language and accessible at the website of the tax authorities. Also, in many countries there are non-governmental institutions that produce high quality information. A sample of what is available on the web for the G7 countries follows: Canada, France, Germany, Italy, Japan, United Kingdom and United States.

Canada:

Finance Canada, Fiscal Reference Tables, Various years: <http://www.fin.gc.ca/frt-trf/2011/frt-trf-11-eng.asp>

Finance Canada, Tax Expenditure and Evaluations. Various years: <http://www.fin.gc.ca/purl/taxexp-eng.asp>

Canada Revenue Agency. Income Tax Statistics and GST/HST. Various years: <http://www.cra-arc.gc.ca/gncy/stts/menu-eng.html>

Canadian Tax Foundation. Finances of the Nation. Various years: http://www.ctf.ca/ctfweb/EN/CTF_Publications/Books/Finances_of_the_Nation

France:

National fiscal administration: <http://www.impots.gouv.fr/portal/dgi/public/statistiques>

Ministry of Finance: www.minefi.gouv.fr

Germany:

Federal Statistical Office: <http://www.destatis.de>

Deutsche Bundesbank Statistics: www.bundesbank.de/statistik

Italy:

Ministry of Finance: <http://www.finanze.gov.it/>

National Institute of Statistics: <http://www.istat.it/it/archivio/imposte>

Revenue Agency: <http://www.agenziaentrate.gov.it/wps/portal/entrate/home>

Bank of Italy, Public finance statistics: www.bancaditalia.it

Japan:

Statistics Bureau: <http://www.stat.go.jp/english/19.htm>

Ministry of Finance: www.mof.go.jp/english

Statistical Bureau, Japan: www.go.jp/english/index.htm

Keizai Koho Center, Japan institute for social and economic affairs: www.kkc.or.jp/english/

United Kingdom:

Gateway to U.K. Statistics. Topic Guide to Taxes and Revenues. Various years:

<http://www.statistics.gov.uk/hub/economy/government-receipts-and-expenditure/taxes-and-revenue>, and,

Institute for Fiscal Studies. Tax Facts. Various years: <http://www.ifs.org.uk/fiscalFacts>

United States:

Economic Report of the President. Government Finance section. Various years:

<http://www.gpo.gov/fdsys/browse/collection.action?collectionCode=ERP>.

Internal Revenue Service. Tax Statistics. Various years: <http://www.irs.gov/uac/Tax-Stats-2>.

Urban Institute and Brookings Institution, Tax Policy Center. Tax Facts. Various years:

<http://www.taxpolicycenter.org/taxfacts/index.cfm>

THE HISTORY OF TAXATION

Joseph Schumpeter, a social scientist with direct experience in politics provided a seminal discussion of changes and historical trends in taxation, in his "Crisis of the Tax State", Schumpeter 1918/1991. While the author's famous claim that "the spirit of a people, its cultural level, its social structure, the deeds of its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases" (1991, 101) may overstate the case somewhat, there is enough truth in his assertion to make the study of fiscal history a central topic in political economy. The section begins with general analyses of the central role of taxation in the evolution of nation states. Financing the capacity to wage war is a critical part of that story, and is further explored in the literature in the next sub-section on the relationship between war and

specific aspects of fiscal structure. The section concludes with a sampling of the rich literature dealing with the history of taxation in particular countries, where all of the grand themes are again displayed in greater detail.

General History of the Tax State

Since all states require economic resources to project their power and to provide internal security and other services, imposition of taxes goes back to the beginning of recorded history. Weber and Wildavsky 1986 provides a broad, though somewhat sketchy, overview of these long antecedents, while O'Brien 1999 provides an extensive collection of work dealing with various aspects of tax history. The role of taxation in the development of modern nation states and its relation to the rise of democratic institutions is a particularly interesting part of broader history. Acquisition of taxing powers by the sovereign and later by legislative bodies developed along with limits on the power of monarchs, suggesting strongly that taxation played a crucial role in the shift of power from the governing toward the governed. An important debate has emerged over the nature of, and causality among, the major factors that underlie the historical evolution of fiscal systems and their relationship to democratic institutions, represented here by selected contributions to the literature: Tilly 1992 points to the growth of taxation as both an enabler and a by-product of war; North and Weingast 1989 emphasize the evolution of constraints on the power of the sovereign; Epstein 2000 focuses on the role of state fragmentation which held back fiscal capacity; Stasavage 2003 points to coalition formation that allowed opposition to state powers to arise; and Dincecco 2011 emphasizes the positive, interrelated developments of fiscal centralization and limits on state powers. As may be obvious from the themes addressed in this literature, the study of fiscal history plays an important role in the study of *Taxation and Development*.

O'Brien, D.P., (ed.). 1999. *The History of Taxation*. 8 Volumes. 2800 pages. London: Pickering and Chatto Publishers.

These eight volumes cover the literature of taxation from the late seventeenth century to the end of the nineteenth century. The volumes make clear that while taxation has been of abiding interest to economists, the intellectual problems concerning it, as well as its immediate impact have engaged a much wider public.

Dincecco, Mark. 2011. *Political Transformations and Public Finances: Europe, 1650 – 1913*. Cambridge U.K.: Cambridge University Press.

Studies the long period from 1650 to 1913 using structural break econometrics to argue that both fiscal decentralization emphasized by authors such as Epstein and limited government which enhanced the credibility of the crown in committing to responsible fiscal policies (as in North and Weingast), were the foundation of substantial improvements in public finances.

Epstein, Stephan R. 2000. *Freedom and Growth: Markets and States in Europe 1300-1750*. London: Routledge.

Argues that fragmentation of states, not bad behavior by rulers, prevented the development of fiscal systems in this period.

North, Douglass C. and Barry R. Weingast. 1989. *Constitutions and Commitment: Evolution of Institutions Governing Public Choice*. *Journal of Economic History*. 49: 803-832

Deals with the dilemma posed by a centralized state strong enough to protect the rights required for private markets to flourish, which is then also strong enough to abuse such rights. The Glorious Revolution in this account attenuated the dilemma in England by restraining the King, thereby allowed the issuing of more state debt and the raising of more tax revenue.

Schumpeter, Joseph A. 1991 (1918). *The Crisis of the Tax State*. In Richard Swedberg (ed.). *Joseph A. Schumpeter: The Economics and Sociology of Capitalism*. Princeton: Princeton University Press. Chapter 1: 99 – 140.

Raises most of the grand themes in the study of the history of taxation and its relationship to the rise and decline of the state.

Stasavage, David. 2003. *Public Debt and the Birth of the Democratic State: France and Great Britain, 1688 – 1789*. Cambridge U.K.: Cambridge University Press.

Argues that commitment to debt repayment, and hence the ability of the state to issue debt, depends on opportunities for creditors to form coalitions with other social groups, which is more likely to occur when a society is divided along multiple political cleavages, so that suitable coalitions are or can be assembled. Contrast with North and Weingast.

Tilly, Charles. 1992. *Coercion, Capital and European States, AD 990 -1992*. Malden MA: Blackwell Publishers.

Shows how nation states in Europe built themselves up by acquiring the means to wage war, collect taxes and issue debt. This is a complicated process exhibiting both repression and bargaining, in which warfare and fiscal capacity are interdependent. See especially Chapter 3: 67-95.

Webber, Carolyn and Aaron Wildavsky. 1986. *A History of Taxation and Expenditure in the Western World*. New York: Simon and Schuster

A broad history of taxation, public expenditure, and of budgetary systems and cultures, from ancient times to the modern world.

Taxation, War and the Choice of Fiscal Instruments

The need for money to fight wars has been one of the important driving forces behind the evolution of the public finances and, indeed, of the nature of nation states. Both in a general way, and in specific cases, this role of war is evident in the work cited in the section on the **General History of the Tax State**. This section lists a few works that are aimed at understanding the role of war in the evolution of the *structure* of fiscal systems, including the overall size of the budget and its debt financing, the indirect/direct tax mix, and reliance on income and wealth taxes. O'Brien 1988 studies the role of war finance in the size and composition of revenue structure in Britain over a century and a half, Dincecco et al 2012 study the relationships between warfare, political institutions and revenue structure in pre-unification Italy, Scheve and Stavasage 2010 generally connect wartime with periods of progressive taxation of personal incomes and also (2012) with high taxation of inherited wealth, and Slantchev 2012 (a paper that could also be included in the **Ideas and Contemporary Models** section) attempts to explain in the same theoretical model both the occurrence of war and its deficit financing.

Dincecco, Mark, Giovanni Federico and Andrea Vindigni. 2012. Warfare, Taxation and Political Change: Evidence from the Italian Risorgimento. *Journal of Economic History* 71(4): 887 - 914.

Studies fiscal systems in the Italian peninsula during the unsettled period leading up to Italian unification, in order to consider the relationships among the need for war finance, the parliamentary or absolutist nature of political institutions, and fiscal structure.

O'Brien, Patrick. 1988. The Political Economy of British Taxation, 1660 – 1815. *Economic History Review*. 41: 1-32.

Documents the overwhelming importance of war and war finance in the evolution of the overall size of the budget and of debt finance in the period from the Restoration in 1660 to Waterloo in 1815.

Scheve, Kenneth and David Stasavage. 2010. The Conscription of Wealth: Mass Warfare and the Demand for Progressive Taxation. *Industrial Organization* 64: 529-561.

Uses time-series on tax rates for top incomes in eight countries for 1900-1930 and 1850-1970 from Atkinson and Piketty (see **Taxation, Tax Systems and Tax Reform**), showing that progressive taxation was associated with mass mobilization for war. In contrast, the evolution of male suffrage was much less important. An online data set (see **International Panel Data**) complements the paper.

Scheve, Kenneth and David Stasavage. 2012. *Democracy, War and Wealth: Lessons from Two Centuries of Inheritance Taxation*. *American Political Science Review*. 106(1): 81-102.

Using data on top tax marginal rates on inherited wealth in a set of twenty countries, the authors show that taxation of wealth is associated with mass mobilization for war and not with franchise extension. They interpret this as evidence for the importance of social solidarity and demands for equal sacrifice in wartime. Another online data set accompanies the paper.

Slantchev, Branislav L. 2012. *Borrowed Power: Debt Finance and the Resort to Arms*. *American Political Science Review*. September: 1-23.

Analytically endogenizes both the occurrence of conflict and the issuing of debt to pay for war, and their interaction. Shows how and why a state's borrowing to improve its military capability may occur even when doing so will make it impossible to settle the dispute without fighting.

Historical Country Studies

The evolution of tax structure in a specific country depends on that country's particular political institutions and economic constraints. This section provides additional examples of historical analyses that are informed by modern political economy, in which institutions and economic constraints play interrelated and generally complicated roles in the life of the country considered. Each historical story emphasizes a perspective that the author thinks is appropriate in its setting. The countries covered in this selection from a huge body of literature include: the United Kingdom (Sabine 1966, Daunton 2001, 2007); the United States (Witte 1985, Brownlee 2004); Italy (Marongiu 1995); and Canada (Gillespie 1991). There is also a large literature on comparative tax history, including elsewhere in this bibliography *Stasavage 2003* on France and Great Britain, and *Steinmo 1993* on Sweden, the U.K. and the U.S., among other examples.

Brownlee, W. Elliot. 2004. *Federal Taxation in America: A Short History*, Second Cambridge University Press.

Breaks the evolution of federal taxation into five key periods: the formation of the republic, the Civil War, World War I, the Great Depression, and World War II. The author also considers the related history of state and local taxation in the U.S.

Daunton, Martin. 2001. *Trusting Leviathan. The Politics of Taxation in Britain, 1799–1914*. Cambridge U.K.: Cambridge University Press.

A study of the process of fiscal containment or restraint that the author argues led to trust in, or the political legitimacy of, the British state in the second half of the nineteenth century.

Daunton, Martin. 2007. *The Politics of Taxation in Britain, 1914–1979*. Cambridge U.K.: Cambridge University Press.

Offers an analysis of the politics of acceptance of tax increases after the First World War, why these did not provoke the same levels of discontent in the U.K. as it did on the continent, and why acceptance gave way to hostility at the end of this period.

Witte, John F. 1985. *The Politics and Development of the Federal Income Tax*. Madison WI: University of Wisconsin Press.

A comprehensive political history of the income tax in the United States beginning with temporary taxes associated with the Civil War and ending in 1982. The book includes discussion of the ideas and economic theories behind the appropriate definition of income and its use as a tax base. An 'incrementalism' perspective is used to organize the discussion of tax policy making over the decades. See also work by *Graetz 2006* in the section on *The Politics of Tax Reform*.

Gianni Marongiu. 1995. *Storia del fisco in Italia*. Einaudi.

Italy, like the U.K., has an especially well-documented fiscal history. This book analyzes Italian taxation since the origins of the unified country in 1861. It describes how different types of taxes were implemented in each part of Italy before 1861, and how the process of unification built the political and constitutional basis for the development of fiscal institutions. Complemented by *Dincecco et al 2012* who deal with the pre-unification period.

Gillespie, Irwin. 1991. *Tax, Borrow and Spend: Financing Federal Spending in Canada, 1867-1991*. Ottawa: Carleton University Press.

A study by a careful student of fiscal systems of the evolution of revenue structure of the Government of Canada from the origin of the modern state in 1867 up to 1990. A simple spatial voting model is used as a basis for organizing the discussion. The book documents the importance of consultation with special interests as a tax reform strategy.

Sabine, B. E. V. 1966. *A History of Income Tax*. George Allen and Unwin Ltd.

A detailed study of the evolution of the income tax in Britain, from the period leading up to the first such tax in 1799 that played a key role in the Napoleonic wars to the mid-1960s.

TAXATION BY NON-DEMOCRATIC REGIMES

Although they pursue different goals, non-democratic governments face similar economic constraints in creating tax systems as do democratic ones. Different objectives will lead to different outcomes however.

Brennan and Buchanan 1980 explore how a government that attempts to maximize revenues would structure a tax system to exploit the private economy. In actuality, non-democratic governments will have more complex goals since they also must concern themselves with maintaining power in a given political setting. Wintrobe 1998 uses economic analysis to develop a theory of dictatorship, where taxation is one of the means to stay in power. Levi 1988 analyzes the need of governments to balance revenue collection with compliance and enforcement. Problems of compliance and resistance to arbitrary taxation are discussed for rural China by Bernstein and Lu 2003, while Tilly 2009 provides an intriguing analysis of historical revenue extraction in Russia, with some applications to current methods and problems in that country. The idea that taxation will lead to political representation of wider groups in society, an hypothesis that arises in many of the historical works cited in this bibliography, is tested using a large panel data set in Ross 2004.

Bernstein, Thomas P. and Xiao Lu. 2003. *Taxation Without Representation in Contemporary Rural China*. Cambridge.

Provides evidence and analysis of rising resistance to arbitrarily imposed taxation during the 1990s in China.

Brennan, Geoffrey and James Buchanan. 1980. *The Power to Tax: Analytical Foundations of a Fiscal Constitution*. New York: Cambridge University Press.

An influential analysis of how a Leviathan would levy taxation in order to maximize its size. A close connection between an optimal tax structure (as understood in contemporary tax theory) conducted in the absence of any political constraints on government size and Leviathan's tax policy choices emerges in the course of the study.

Levi, Margaret. 1988. *Of Rule and Revenue*. Berkeley: University of California Press.

Analyzes rulers' efforts to balance extraction of revenues against the need for widespread compliance from and by their polities.

Ross, Michael L. 2004. Does Taxation Lead to Representation? *British Journal of Political Science* 34: 229-249.

Explicitly tests the idea that taxation leads to wider political representation using a large panel data set of 113 countries between 1971 and 1997. The author finds some positive support for the hypothesis.

Tilly, Charles. 2009. Extraction and Democracy. In I. W. Martin, A. K. Mehrotra and M. Prasad (eds.). *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*. New York: Cambridge University Press. Chapter 10: 1173-182.

An intriguing analysis of the way in which states, specifically the regime of Louis XIV, extracted resources from society at large, a comparison of Louis XIV and Vladimir Putin in this respect, and the implications of the analysis for democratization in present day Russia.

Wintrobe, Ronald. 1998. *The Political Economy of Dictatorship*. New York: Cambridge University Press.

Among many other things, this book contains a generalization of the tax structures found in the *Power to Tax* to allow for the endogeneity of an autocrat's coercive power.

TAXATION IN DEMOCRATIC STATES

The analysis of taxation in democratic states has benefited in recent years from the introduction of models that incorporate political as well as economic elements. Among the pioneering efforts were those relying on the median voter model. Because formulations using the median voter as the decisive decision maker may not have stable equilibrium solutions unless they are restricted to a very limited range of choices, more recent research has turned to other approaches, such as spatial voting. What is characteristic of all this literature is that decision makers are clearly identified and that their set of available choices is specified in an explicit manner. This allows examination of equilibrium conditions and of reasons for changes in policy equilibria, as well as for the formulation of hypotheses that can be derived directly from the models and that can be tested statistically if sufficient data are available. In addition to these theoretically based approaches, the literature has also been enriched by contributions on fiscal politics that take a historical and descriptive approach that is less formal in nature.

Ideas and Contemporary Models

The early part of the modern literature on political economy using models of voter choice is based mainly on the median voter hypothesis. Much of it focuses on the determination of public sector size and the direction of redistribution, rather than on tax structure. Within this tradition, there is a body of studies, however, asking questions about the design and adoption of particular taxes, such as, for example, the linear income tax. Authors that pioneered this type of inquiry also relied mostly on the median voter model, but later work has expanded the range of approaches, adopting models that allowed for the analysis of more complex settings and policies. This is an increasingly sophisticated literature. The sources in this section are chosen to reflect general ideas about what elements are essential to include in a model of taxation, debates about which approach to analyzing these elements is most appropriate, as well as to illustrate the rich diversity of models now employed in research on tax systems. (A later section focuses on specific issues or problems, the analysis of which requires more specialized models.) Wicksell

1896 is a classic that brings to our attention the fact that the economic consequences of taxation and the political process by which taxes are levied are inseparably intertwined. Hettich and Winer 1999 introduce the task to be accomplished in defining and modeling tax systems, survey alternative approaches and offer their own contribution to using probabilistic voting models in both theoretical and empirical contexts. von Hagen 2006 considers the importance of dealing with two issues bedeviling fiscal systems in all democratic states, the principal-agent and common pool problems. A median voter model is used to study taxation in seminal papers by Romer 1975 who studies the determination of a linear tax system, and by Meltzer and Richard 1981 who are concerned with the overall tax burden. Lindbeck and Weibull 1987 provide theoretical foundations for the more general spatial voting approach to redistribution, and Roemer 1999 explicitly models the role played by party coalitions in determining the equilibrium degree of tax progressivity. The relationship between electoral systems and the ideology of competing parties in the determination of the degree of redistribution is dealt with both theoretically and empirically by Iverson and Soskice 2006, a paper that leads on to the section on *Political Institutions and Taxation*

von Hagen, Jürgen. 2006. Political Economy of Fiscal Institutions. In Barry Weingarten and Donald A. Wittman. *The Oxford Handbook of Political Economy*. Oxford U.K.: Oxford University Press. Chapter 26, 464-478.

Considers two fundamental issues in the political economy of fiscal systems that lie beneath Wicksell's and much subsequent analysis: (i) the principal - agent problem for voters, who want to control elected and non-elected fiscal decision makers; and (ii) the common pool problem - that beneficiaries of particular public services are typically a smaller group than those paying the taxes required.

Hettich, Walter and Stanley L. Winer. 1999. *Democratic Choice and Taxation: A Theoretical and Empirical Analysis*. New York: Cambridge University Press.

The authors show how tax bases, rate structures and special provisions - the skeleton of all tax systems - arises in a spatial voting framework with administration and information costs. Also contains an overview of alternative theoretical approaches, presents and simulates a computable equilibrium, political economy model of the U.S. tax system, and provides statistical research on the determinants of tax structures in Canada and the U.S.

Iverson, Torben and David Soskice. 2006. Electoral Institutions and the Politics of Coalitions: Why some Democracies Redistribute More than Others. 2006. *American Political Science Review* 100: 165-181.

When taxes may vary across income classes (unlike in a median voter model), the rich cannot 'soak' those below them, and parties can commit only to their own partisans, the authors show

that proportional representation leads to more redistribution than occurs in a majoritarian electoral system. Empirical work supports the argument.

Lindbeck, Assar and Jorge W. Weibull 1987. Balanced-budget Redistribution as the Outcome of Political Competition. *Public Choice*, 52, 273–297.

With probabilistic voting, expected votes for a political party becomes a smooth function of its policy proposals. While a median voter model generally has no equilibrium even with well-behaved preferences once a complex fiscal system is considered, this framework thus allows the study of such multidimensional (and more realistic) tax systems even when they single out particular interests for special treatment.

Meltzer, Allan A. and Scott F. Richard 1981. A Rational Theory of the Size of Government. *Journal of Political Economy*, 89(5), 914–927.

This seminal application of the median vote model argues that the right skewed is the income distribution among voters, as measured by the ratio of mean to median income, the higher the tax rate (and the size of government) as tax revenue is redistributed away from those with above average income.

Romer, Thomas. 1975. Individual Welfare, Majority Voting, and the Properties of a Linear Income Tax. *Journal of Public Economics* 4(2): 163-185.

Links redistribution under majority voting to the equity-efficiency trade-off explored in normative theory. A linear tax function is chosen according to majority vote and possible conflict between high national income and distributional equity is explored. It is found that, even when earned incomes are rightward skew, majority voting does not necessarily lead to progressive taxation.

Roemer, John E. 1999. The Democratic Political Economy of Progressive Income Taxation. *Econometrica* 67: 1-19.

Explores the role of political parties in the determination of tax progressivity. A party is a Nash coalition of members who all prefer their own party's policies to those of opposing parties. In such equilibria, progressive taxation emerges when median income is below the mean. A nontechnical summary is found in the **Oxford Handbook of Political Economy**, Chapter 58: 1010-1030.

Wicksell, Kurt. 1896. A New Principle of Just Taxation. In Richard Musgrave and Alan Peacock. *Classics in the Theory of Public Finance*. MacMillan 1961:72 - 118.

A pioneering contribution to the political economy of fiscal systems, in which analyses of the economic consequences of taxation and of the political process through which tax policies are

chosen are regarded as inseparable parts of a full theoretical understanding. The separation of spending and taxing decisions is identified as a basic source of coercion as well as of economic inefficiency.

Selected Topics: The Capital Levy Problem; Tariffs and International Trade; Tax Competition; and Deficit Finance and Intergenerational Redistribution.

We turn from general models to the consideration of specific issues about which much has been written: the capital levy or time-inconsistency problem, which arises when investment is first attracted by low taxes and then treated as a 'sitting duck' once capital has been sunk; the taxation of international trade, which has long been an important subtopic in the political economy of trade; strategic competition between nations and yardstick competition between political jurisdictions at all levels, both of which become more intense as transactions and information costs decline; and the problems of intergenerational redistribution, which occur because of the difficulty that a current generation or majority has in binding those in the future to honour contracts or political bargains made in the present. Space permits only two references in each category, though each could be the subject of its own bibliography. Persson and Tabellini 2002 and Marceau and Smart 2003 both consider how the capital levy problem is attenuated by the operation of particular features of democratic politics. Keen and Konrad 2012 provide a recent survey of the literature on international tax competition and the strategic interaction of national governments, while Besley and Case 1995 study yardstick competition, in which voters compare the performance of local politicians with those in 'neighboring jurisdictions theoretically and empirically. Grossman and Helpman 2002 and Hillman 1982 study the political economy of tariffs and trade policy using quite different approaches. Tabellini 1991 and Alesina and Perotti 1995 consider the determinants of public deficits and debt.

Alesina, Alberto and Roberto Perotti. 1995. The Political Economy of Budget Deficits. IMF Staff Papers 42(1): 1-31.

Argues that Barro's tax smoothing model alone – in which deficit financing is used to efficiently smooth tax rates over the cycle - cannot explain O.E.C.D. experience. The paper compares alternative explanations that rely upon: (1) voter illusions; (2) intergenerational redistribution; (3) debt as a strategic variable; (4) coalition government; (5) geographically dispersed interests; and (6) the effects of budgetary institutions.

Besley, Timothy and Anne Case 1995. Incumbent Behavior: Vote-Seeking, Tax-Setting, and Yardstick Competition. *American Economic Review* 85(1): 25-45

Studies tax-setting in a multijurisdictional world, where voters make comparisons between jurisdictions to overcome political agency problems. This forces incumbents into a yardstick competition in which they care about what other incumbents in other jurisdictions are doing, even if voters do not move. Evidence for yardstick competition using data for U.S. states is also provided.

Grossman, Gene M. and Elhanan Helpman. 2002. *Interest Groups and Trade Policy*. Princeton University Press.

Studies the common agency problem for interest groups (the principals), which compete with each other by offering the government (the agent) an incentive schedule for the provision of favorable trade policies. Based on the authors' development of this approach to special interest politics. Other major approaches to the political economy of trade policy are nicely surveyed in Chapter Six: 173-198.

Hillman, Arye 1982. Declining Industries and Political-Support Protectionist Motives. *American Economic Review* 72: 1180-1187.

Adapts the economic theory of regulation developed by Stigler and Peltzman to model the choice of a tariff rate, when the government trades off support from businesses who want protection from international competition against the interests of domestic consumers.

Keen, Michael and Kai A. Konrad. 2012. *International Tax Competition and Coordination*. Max Planck Institute for Tax Law and Public Finance. Working Paper 2012 – 06. At: <http://www.tax.mpg.de/RePEc/mpi/wpaper/Tax-MPG-RPS-2012-06.pdf>.

A recent survey or work on international tax competition, including political economy dimensions involving strategic interaction between governments. Complemented by work on the nature of veto points in national political institutions by *Ganghoff* and *Hallerberg and Basinger* in the *Political Institutions and Taxation* section.

Marceau, Nicolas and Michael Smart 2003. Corporate Lobbying and Commitment Failure in Capital Taxation. *American Economic Review* 93(1): 241-251.

Studies the role of lobbying by businesses as a protection or counter to the capital levy problem.

Persson, Torsten and Guido Tabellini. 2002. Political Economics and Public Finance. In Alan J. Auerbach and Martin Feldstein (eds.). Handbook of Public Economics. Vol 3. Amsterdam: North Holland: 1549 – 1659.

Uses a citizen-candidate model to argue that voters may be able to counter the capital levy problem by electing candidates from the wealthier class who are reluctant to impose high taxes on capital income.

Tabellini, Guido. 1991. The Politics of Intergenerational Redistribution. *Journal of Political Economy* 99: 335-357.

Asks why public debt issued in the present - essentially a tax on future incomes- is repaid. The matter is complex as voter-parents take into account who bears the burden of debt repudiation in the future, which ultimately must be covered by taxes on someone's' children, the distribution of which depends on the future concentration of individual wealth.

Empirical Applications

Several studies have tested the implications of the median voter model using data sets for one country over time, across states within a federal system and using international panel data that include political regimes of different types. The median voter hypothesis in its exact or strong form is revealed to be faulty, and at the same time shown to capture some aspects of reality. The spatial voting approach, where all groups count politically to some extent, is also being used to guide the formation of estimating equations, and in these studies the emphasis is on a search for a broader or more complete set of economic and political factors that underlie the evolution of fiscal systems. Bork 2007, surveying a large literature, finds that evidence largely fails to support the Meltzer-Richard hypothesis and their median voter formulation regarding the determinants of government size, while Iverson and Soskice 2001 shed further critical light on the Meltzer-Richard approach. Milanovic 2000 also examines the median voter hypothesis, using data from the Luxembourg Income Study. Historical context for government growth is provided in Aidt and Jensen 2009, who focus on the influence of franchise extension. Winer and Hettich give specific historical context for Canada by formally modeling the evolution of tax structure in a spatial voting model from 1871 to 1913, a period when tariffs were a major revenue source. Cusack and Beramendi 2006 look at tax regimes in the recent past in OECD countries with special regard to the taxation of labour income. Kenny and Winer 2006 and Mulligan, Gil and Sala-i-Martin 2004 study the determinants of tax structure in large international panel data sets that include regimes exhibiting varying degrees of democracy.

Aidt, Toke and Peter S. Jensen. 2009. Tax structure, Size of Government, and the Extension of the Voting Franchise in Western Europe, 1860-1938. *International Tax and Public Finance* 16: 362-94.

Shows that the relaxation of income and wealth restrictions on the right to vote contributed to growth in government spending and taxation, and that the impact of franchise extension on tax structure is conditional on tax collection costs: the share of direct taxes is positively affected by franchise extension, but only if relative collection costs fall below a given threshold.

Borck, Robert. 2007. Voting, Inequality and Redistribution. *Journal of Economic Surveys*, 21(1), 90–109. Surveys a large empirical literature and shows that the evidence is broadly against the Meltzer–Richard-Median Voter hypothesis about what determines the overall size of the public sector.

Cusack, Thomas R. and Pablo Beramendi. 2006. Taxing Work. *European Journal of Political Research*. Volume 45: 43–73

Examines tax regimes across OECD countries in the latter part of the twentieth century, emphasizing taxation of labour income. Shows that coordinated market economies tend to impose higher tax rates on labour because they have higher levels of wage coordination, their governments are more likely to be left oriented, and their executive branches are relatively weak in relation to their legislatures.

Kenny, Lawrence W. and Stanley L. Winer. 2006. Tax Systems in the World: An Empirical Investigation into the Importance of Tax Bases, Collection Costs, and Political Regime. *International Tax and Public Finance* 13(2/3): 181-215

Analyzes tax structure for 100 democratic and non-democratic regimes in the 1970 – 1990 period. Results reveal increasing utilization of each tax source as government expands, more reliance on relatively larger tax bases, and increased use of sources with lower administration costs. Political regime significantly influences fiscal choice, with democratic nations emphasizing taxation (like the personal income tax) where voluntary compliance is required.

Iverson, Torben and David Soskice. 2001. An Asset Theory of Social Policy Preferences. *American Political Science R* 95(4): 875-893.

Links redistribution to the skills possessed by voter/workers, and hence to human capital formation. Greater specificity of skills leaves workers exposed to shocks, and more demanding of social insurance. Whether this means that redistribution goes from higher to lower income voters, as in the *Meltzer-Richard median voter model*, depends on the particular composition of skills in society.

Milanovic, Branko. (2000). The median-voter hypothesis, Income Inequality, and Income Redistribution: An Empirical Test with the Required Data. *European Journal of Political Economy*, 16(3), 367–410.

Using data from the Luxembourg Income Study, this paper shows that countries with greater inequality of factor incomes (and, thus, a higher ratio of average to median income) redistribute more to the poor. It also shows that the median voter typically loses from such redistribution, in contrast to the prediction of the median voter model.

Mulligan, Casey B., Ricard Gil and Xavier Sala-i-Martin (2004) 'Do Democracies have Different Public Policies than Non Democracies?', *Journal of Economic Perspectives*, 18, (1): 51-74.

Using data for 142 countries over the period 1960-90, this paper finds that democracies tend to have flatter personal income tax rate structures than do non-democratic regimes.

Richter, Brian K., Krislert Samphantharak and Jeffrey F. Timmons. 2009. Lobbying and Taxes. *American Political Science Review* 53(4): 893-909.

Provides evidence that lobbying by business interests in the U.S. for lower taxes is a highly profitable activity, either to lower tax rates or to defend against the threat of tax increases. Includes many references to work in the area. More evidence that taxation and politics are intimately connected. An obvious complement to work on the *Politics of Tax Reform*.

Winer, Stanley L. and Walter Hettich. 1991. Debt and Tariffs: An Empirical Investigation of the Evolution of Revenue Systems. *Journal of Public Economics* 45: 215-242

Analyzes the complete revenue mix of the Government of Canada from 1871 to 1913, when major sources of funds consisted of the tariff, public debt and excises. Estimating equations are derived from a model where the government makes fiscal choices in order to maximize political support and where changing economic, political and administrative factors drive the evolution of revenue structure.

Political Institutions and Taxation

Existing democratic institutions may influence what particular taxes are chosen through the political process, what tax structure is established, and when and why shifts in fiscal policy occur. Countries with parliamentary systems may prefer somewhat different fiscal structures from those with a presidential system, for example, since transaction costs will vary between them. Not surprisingly, there are several papers comparing proportional and majoritarian electoral regimes, which operate differently and apparently lead to different tax policy choices for various reasons. According to one formulation, the number and position of veto players in the tax policy process, which differs with electoral regime, may have a direct connection to observed outcomes. There is a growing literature that attempts to make the case for the role of these and other aspects of institutions, using descriptive as well as statistical methods to test specific hypotheses. The material in this section complements entries in the *Ideas and

Contemporary Models* subsection which tend to be of a more (but not exclusively) analytical nature, as well as work on *the History of Taxation*. Winer et al 2011 provide an analytical survey of work on the role of institutions in the evolution of revenue systems along with new empirical work. A different style of analysis, oriented more toward the day to day working of political institutions, is found in Gould and Baker 2002. In an early paper using the concept of veto player, Hallerberg and Basinger 1998 show that existence of such players did moderate responses to globalization pressures on corporate taxation in O.E.C.D. countries. On the other hand, Ganghoff 2006 comes to the opposite conclusion for EU countries during the past few decades. A comparative analysis by Harrison 2010 of three European countries and Canada shows that in the case of carbon taxation, proportional electoral systems facilitate adoption of such taxes. Cross country analysis for a small sample of nations is also pursued in a pioneering, largely descriptive study by Steinmo 1993, linking tax policy process with tax policy choice. In contrast, Austen-Smith 2000 approaches institutional comparison in a purely formal manner, developing a three party proportional representation model and contrasting it with a two party majoritarian system. Finally, Gehlbach 2008 studies the influence of politics and of the particular historical circumstances of former communist countries on the evolution of more market-oriented tax structures and parallel subsidy systems.

Austen-Smith, David. 2000. Redistributing Income Under Proportional Representation. *Journal of Political Economy* 108(6):1235–69

Develops a three-party proportional representation model in which taxes are determined through legislative bargaining among successful parties and where individuals can make occupational choices. Political-economic equilibria for this model and for a two party, majoritarian system are derived and compared. For alternative ways to model taxation in the two electoral systems, see *Iversen and Soskice 2006* in *Ideas and Contemporary Models*.

Ganghoff, Steffen. 2006. *The Politics of Income Taxation: a Comparative Analysis*. ECPR Monograph, University of Oxford.

Focuses on downward pressure on corporate tax rates in E.U. countries over the past few decades, and shows that this pressure is *not* moderated by the presence of domestic veto points, which mainly affect national personal tax systems. Results are interpreted as resulting from strong international pressures on domestic policy choices. Contrast with Hallerberg and Basinger 1998.

Gehlbach, Scott. 2008. *Representation Through Taxation: Revenue, Politics and Development in Post-communist States*. New York: Cambridge University Press.

On the particular politics and economics of taxation in the former communist countries after the collapse of the Soviet Union, in contrast to taxation in the Soviet Union. Emphasizes the shift of taxation towards activities that are 'naturally' compliant in a more market oriented society, and the parallel developments concerning the subsidization of emerging (and taxable) sectors and firms.

Gould, Andrew C. and Peter J. Baker. 2002. Democracy and Taxation. *Annual Review of Political Science*. Vol. 5: 87-110.

A survey that is organized in a quite different than that by *Winer et. al.*, perhaps reflecting the difference in orientation of the political scientists who wrote it from that of economists. The paper here focuses on the workings of political institutions as these affect tax revenue, methods of collection, and tax incidence.

Hallerberg, M. and M, Basinger. 1998. Internationalization and changes in tax policy in OECD countries: the importance of domestic veto players. *Comparative Political Studies* 31:321–352.

A veto player, following Tsebelis, is a political actor whose agreement is needed before a status quo can change substantially. This is an early paper using the veto player concept to study the determinants of corporate taxation across O.E.C.D. countries. Provides evidence that corporate tax cuts in response to globalization are moderated by the presence of veto players.

Harrison, Kathryn. 2010. The Comparative Politics of Carbon Taxation. *Annual Review of Law and Social Science* 6: 507-529.

Compares the experience of Finland, Denmark, Germany and Canada. The analysis suggests that proportional electoral systems tend to facilitate adoption of carbon taxation.

Steinmo, Sven. 1993. Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State. New Haven: Yale University Press.

A seminal contribution to the literature linking institutions and tax structure. Compares tax policy in the three countries and argues persuasively that corporatism in Sweden, one party domination of government in the U.K., and checks and balances in the U.S. are responsible for significant differences in tax policy processes and in tax policy choices across the three countries.

Winer, Stanley L., Lawrence Kenny and Walter Hettich. 2011. Political Regimes, Institutions and the Nature of Tax Systems. In E. Albi and J. Martinez-Vazquez (eds.). *The Elgar Guide to Tax Systems*. Edward Elgar: 376 - 412.

A recent survey of work on the role and importance of institutions in the evolution of tax systems, starting from a macro level and proceeding to analyze detailed institutional issues. Electoral

systems and veto points are considered. Includes brief theoretical discussions of the role of each institutional feature included, along with new statistical and simulation results.

Rational Ignorance and Fiscal Illusion

The separation of what you pay and what you get in all developed fiscal systems, emphasized by *Wicksell 1896* as a key institutional feature of public budgeting, is broader in the public sector than in a market economy. The public choice school, going back to the Italian school of public finance and later including Downs' *An Economic Theory of Democracy 1957*, where the concept of rational ignorance first made its appearance, has been concerned with the resulting possibility that political actors can and will release biased information about the tax-price of public goods and services, in order to achieve their partisan goals. In this concern it preceded the more recent behavioral approach in economics, which also deals with the sources and consequences of information biases. Included in this section are some of the contributions to this fiscal illusion literature: Banzhaf and Oates 2012 on illusion as opposed to Ricardian equivalence in local finance, Buchanan and Wagner on the role of debt finance in convincing taxpayers of the (unwarranted in their view) efficacy of Keynesian stabilization, Oates 1991 and Wagner 1977 on the measurement of bias by taxpayers in the estimation of the burden of particular taxes.

Banzhaf, H. Spencer and Wallace E. Oates. 2012. On Fiscal Illusion and Ricardian Equivalence in Local Public Finance [ssrn.com/abstract= 2062473]. Georgia State University, Andrew Young School of Policy Studies, Department of Economics, Working Paper 12-15. April.

Re-evaluates two forms of fiscal illusion in local debt finance: debt illusion and renter illusion, using local open space referenda in the U.S. Shows that households do prefer debt financing to tax financing.

Buchanan, James M. and Richard E. Wagner. 1977. *Democracy in Deficit: The Political Legacy of Lord Keynes*. New York: Academic Press Inc.

Argues that Keynesianism has led to an illusion that debt financing is in some sense cheaper than tax financing, and hence to overreliance on deficit financing and active counter-cyclical stabilization policy.

Downs, Anthony 1957. *An Economic Theory of Democracy*. New York: Harper and Row.

A seminal work on the political economy of democracy. In particular, this book presents and develops the idea that it is not rational for voters to acquire full information about the nature and consequences of political platforms, an idea that has led to subsequent research in many contexts on the role of asymmetric information in electoral politics.

Oates, Wallace E.. 1991. On the Nature and Measurement of Fiscal Illusion: A Survey. In W. Oates. *Studies in Fiscal Federalism*. Edward Elgar: 431-448.

This paper provides a useful survey of work on fiscal illusion up to the late 1980s.

Wagner, Richard E.. 1976. Revenue Structure, Fiscal Illusion and Budgetary Choice. *Public Choice* 25: 45-61.

A seminal empirical paper on the relationship between tax complexity and the perception (and underestimation) of tax burdens.

TAX ADMINISTRATION

The effectiveness of tax policy crucially depends on compliance, administration and enforcement, and on their behavioral counterparts, avoidance and evasion. Indeed, it is a commonplace to say that whatever the formal rules may be, it is the nature and quality of tax administration that determines the true character of a tax system. These aspects of tax systems differ across time within and across countries, providing data sets that are useful in empirical studies. The literature can be separated into two parts: on compliance and evasion, and on administration and enforcement.

Compliance and Evasion

Taxes must be collected from citizens, making the costs of administration and of enforcing compliance important aspects of tax design. In addition, the ways in which enforcement is carried out may create significant political feedback and affect a government's popularity (See *Levi 1988*). Despite their importance, these aspects of tax design have received less attention in the literature on political science and political economy than other elements in the tax policy process. Economists have made significant contributions in this area however, starting with the seminal paper by Allingham and Sandmo 1972 on the individual decision to evade taxes. Subsequent theoretical and empirical work on the economics of evasion and the underground economy is surveyed by Cowell 1990 and by Schneider and Enste 2000. Research on compliance is reviewed by Andreoni et al. 1998. Kleven et al 2011 is a recent interesting contribution to the study of evasion and the effects of auditing by the government. Empirical research using a political economy approach shows the importance of well-designed institutions for voluntary compliance (Alm et al 1993), tax morale (Frey and Torgler 2007), reduced corruption (Hibbs and Piculesci 2010) and generally for establishing the overall health of fiscal systems.

Allingham, Michael G. and Agnar Sandmo. 1972. Income Tax Evasion: A Theoretical Analysis. *Journal of Public Economics* 1: 323 - 338.

The seminal paper on the economic theory of tax evasion. The perspective is that of the rational,

risk averse taxpayer facing uncertainty about the final personal outcome of a decision to evade some part of his or her legal tax liabilities.

Alm, James, Betty R. Jackson and Michael McKee. 1993. Fiscal exchange, Collective Decision Institutions, and Tax Compliance. *Journal of Economic Behavior and Organization* 22(3): 285-303.

Shows experimentally that participation in democratic collective choice is conducive to tax compliance. Wicksell 1896 predicted such an effect in his famous essay, on the grounds that once people are freed from coercion, they will be more willing to participate.

Andreoni, James, Brian Erard and Jonathan Feinstein. 1998. Tax Compliance. *Journal of Economic Literature* 36(2): 818-860.

A comprehensive survey of economic research on the compliance issue.

Cowell, Frank A.. 1990 *Cheating the Government. The Economics of Evasion.* Cambridge MA: MIT Press.

This book presents an extended analysis of tax evasion and the underground economy. It develops a framework to show how the underground economy grows and what are the economic forces that drive the phenomenon. It also recommends measures to combat the loss of tax revenue that results. The relevant economic literature on tax evasion is referenced throughout.

Frey, Bruno S. and Benno Torgler. 2007. Tax Morale and Conditional Cooperation. *Journal of Comparative Economics* 35(1): 136-159

Why do so many people pay their taxes, even though fines and audit probabilities are low? This paper provides empirical evidence for the relevance of conditional cooperation, using survey data from 30 Western and East European countries. Tax morale is higher, and evasion lower, where institutional quality is high.

Hibbs, Douglas A. and Violeta Piculescu. 2010. Tax Toleration and Tax Compliance: How Governance Affects the propensity of Firms to Enter the Unofficial Economy. *American Journal of Political Science* 54(1): 18-33.

Argues that corruption and underground activity arise when firms perceive taxes as not 'worth paying', based on empirical work with a sample of about 3500 firms in 50 countries (the World Business Environment Surveys). Large firms provided with good governance may support taxes needed to pay for such institutions, and so virtuous circles are possible, as well as those that spiral downwards.

Kleven, H., J. Knudsen, M.B. Kreiner, C.T. Pedersen, and E. Saez. 2011. Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark. *Econometrica* 79: 651-692.

Using a field experiment in Denmark, in which taxpayers were randomly selected for auditing, this paper finds that tax evasion is high for self-reported income, but close to zero for (the vast majority of) incomes subject to third-party reporting. Also provides evidence that marginal tax rates have a smaller effect on evasion for self-reported incomes than does legal avoidance and behavioral responses.

Friedrich Schneider and Dominik H. Enste. 2000. Shadow Economies: Size, Causes, and Consequences. *Journal of Economic Literature* 38(1): 77-114.

A survey of international experience using empirical estimates of the underground economy, covering exactly what the title says.

Administration and Enforcement

These topics too are under-researched from a political economy perspective. The following survey papers, covering related aspects of the sizeable economic and policy-oriented literature on administration, serve as a useful introduction to the major economic issues in this area: Cosgel and Miceli 2009 from an historical perspective; Hasedine 2011 from a public policy perspective; and Slemrod and Yitzhaki 2002 using a broad economics perspective.

Cosgel, Metin M. and Thomas J. Miceli. 2009. Tax Collection in History. *Public Finance Review* 37(4): 399-420.

Uses principal-agent theory to categorize administration systems as a share contract, a rent contract, or like most systems in developed economies, a wage contract.

Hasedine, John. 2011. The Administration of Tax Systems. In E. Albi and J. Martinez-Vazquez (eds.). *The Elgar Guide to Tax Systems*. Edward Elgar: 360-375.

A good survey of current ideas about tax administration from a public policy perspective.

Slemrod, Joel and Shlomo Yitzhaki. 2002. Tax Avoidance, Evasion, and Administration. In A. J. Auerbach and M. Feldstein (eds.). *Handbook of Public Economics*. Volume 3, Chapter 22: 1423-1470. Elsevier.

Provides a survey of economic research concerned with how individuals resort to tax avoidance and evasion as part of their responses to tax changes. It also considers how various policies may affect the magnitude of individual responses.

TAXATION AND DEVELOPMENT

The study of the relationship between economic development and taxation has long been a subject of economic research. Many of the contributions in the field have adopted a normative rather than a positive perspective. Some economic research in the area moves informally towards political economy, as the topic requires, through consideration of distributional issues underlying political stability, obscure property rights, widespread tax evasion and the informal sector, the corruption of public officials, and possibilities for fundamental tax reform. Recently the focus has changed to include explicit consideration of the political economy of taxation in a development context, from both a broad systems perspective as well as using a more micro theoretic analysis. Here the growth of the tax state along with general economic development, and the relationships between these processes, is investigated. Many issues covered elsewhere in this bibliography reappear at some point in this complex area of research, one that stands at the crossroads of economics, politics and history. Hinrichs 1966 is an early work on taxation in the course of economic development. Gordon 2010 and Fuest and Zodrow 2013 provide interesting collections of recent papers that deal with various issues in the development and taxation area, mainly though not exclusively from an economics perspective. Bird and Gendron 2007 and Keen and Lockwood 2010 focus on the value added tax, which has been the centerpiece of tax reform in many developing countries. Boix looks broadly at the connection between economic development, the growth of the public sector and the nature of political regimes, while Profeta and Scambrosetti focus on the political economy of the tax mix in Asian and Latin American countries after 1990. Finally, Besley and Persson 2011 provide a more micro theoretic analysis of how peace, easy taxes, and a tolerable administration of justice - Adam Smith's pillars of prosperity – may be achieved in the course of economic development.

Besley, Timothy and Torsten Persson, 2011. *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton University Press. Especially Chapter Two, 40-102.

Fiscal capacity is regarded as a capital good that can be built up, inducing governments to play a productive and not just an extractive role. The book as a whole shows how peace, easy taxes, and a good legal system - Smith's pillars of prosperity – are achieved. Easy taxes are broad, involve widespread compliance, and emerge from institutions that promote the common interest.

Bird, Richard and Pierre-Pascal Gendron. 2007. *The VAT in Developing and Transitional Countries*. Cambridge U.K.: Cambridge University Press.

Discusses the critical issues on VAT in developing countries, using practical examples. Explains why a VAT may be unpopular due to its distributional effects and due to the information needed for its application. How to overcome political opposition in implementing and reforming a VAT is a serious concern, addressed here to some extent.

Boix, Charles. 2001. Democracy, Development, and the Public Sector. *American Journal of Political Science*, 45 (1): 1-17.

Shows that the link between the process of economic modernization and the size of the public sector depends on the political regime: in democratic regimes the higher participation by citizens increases redistributive needs and thus enlarges the public sector, while in authoritarian regimes redistribution is blocked and taxes remain low.

Fuest, Clemens and George Zodrow (eds). 2013. *Critical Issues in Taxation and Development*. Cambridge Mass: MIT Press.

Complicating taxation in developing countries are issues that most developed countries do not face, including widespread corruption, tax evasion, and ineffective political structures. These issues are explored in the various papers in this volume.

Gordon, Roger (ed.). 2010. *Taxation in Developing Countries: Six Case Studies and Policy Implications*. New York: Columbia University Press.

The book focuses on tax systems in six developing countries (Argentina, Brazil, India, Kenya, Korea and Russia) which show important differences in their political structures. Critical issues identified and addressed in the essays include the corruption of tax authorities, and the presence in developing countries of a large informal sector.

Hinrichs, Harley H. 1966. *A General Theory of Tax Structure Change During Economic Development*. Harvard Law School International Tax Program.

An early classic on the evolution of tax systems in the course of economic development.

Keen, Michael and Benjamin Lockwood. 2010. *The Value Added Tax: Its Causes and Consequences*. *Journal of Development Economics* 92: 138-151.

The authors use a sample of 143 countries over 25 years to econometrically explore the causes and consequences of the rise of the VAT, asking what has shaped its adoption and its effectiveness.

Profeta, Paola and Simona Scambrosetti. 2010. *The Political Economy of Taxation: Lessons from Developing Countries*. Edward Elgar Publishers.

Focuses on developing countries from Asia and Latin America which experienced an economic and democratic transition during the 1990-2004 period. Tax revenue is higher in more democratic regimes, and the relationship between democracy and the tax mix is more difficult to predict. A

comparison with new European Union states suggests that more mature democracies rely more heavily on direct taxation.

THE POLITICS OF TAX REFORM

The majority of the literature dealing with tax reform is based on prescriptive or normative standards and makes a case for what should be in accordance with them. A political economy approach asks different questions: Why and how do observed changes in tax systems occur as outcomes of political decision making? Under what circumstances would a prescribed system represent an endogenous or equilibrium outcome given existing institutions and political and economic forces? In most countries, some tax change is part of the ongoing budgeting process, but major shifts in tax structure happen only infrequently. They are often influenced by prescriptive formulations. The explanation of how and why such prescriptions become accepted and implemented (often in strongly modified form), like the explanation of tax change itself, requires an underlying model that takes account of the joint influence of economic and political forces. Over the past few decades, the withering away of corporate taxation as a backstop to personal taxation as a result of globalization has led to many reform debates that are of much interest to students of political economy, debates reflected in recent *Tax Commissions*. Simons 1938 represents a classic of normative or prescriptive analysis in tax design that had a profound influence on later ideas regarding taxation. Buchanan and Congleton 2006 give a contemporary restatement of this tradition, providing their own and somewhat different perspective on the analysis. Boadway 2012, while also emphasizing normative concerns, starts from optimal tax theory, the collection of theoretical ideas that has been the dominant influence in recent years on the economics of taxation. The approach that emphasizes political economy, rather than normative concerns, is represented by Alt, Preston and Sibietta 2011, who provide a useful summary of issues from this quite different point of view. Castanehira et al 2012 also focus on the political economy of reform, with emphasis on labor taxation, while in addition testing hypotheses with data for the European Union. Bernardi and Profeta 2004 review tax reforms in seven European countries, providing details on tax structure and discussing the role of political factors and cycles in fiscal system change. Eccleston 2007 gives an account of the introduction of value added taxation in Japan, Canada and Australia and reviews the reasons why such taxation has little traction in the U.S. Graetz 2006, focusing on the U.S., describes and analyses in detail the political process resulting in the decline of estate taxation in that country.

James Alt, Ian Preston and Luke Sibietta 2011. *The Political Economy of Taxation*. With comments by P. Riddell. G. Tabellini and C. Wales. Chapter 13 in *Dimensions of Tax Design*, The Mirrlees Review, IFS: 1204-1279.

A useful survey paper on the political economy of taxation, published as part of the comprehensive report on taxation and tax reform called the *Mirrlees Review*. Put in context and complemented by critical comments of three experts in the field.

Bernardi, Luigi and Paola Profeta, 2004. *Tax Systems and Tax Reforms in Europe*. Routledge.

A view of tax reforms in seven European countries: Germany, France, Italy, United Kingdom, Spain, The Netherlands and Ireland. It provides details on each country's tax structure and analyzes both the main ongoing trends and the differences across countries. The role of cycles in tax reforms and of political factors are of particular interest here.

Boadway, Robin. 2012. *From Optimal Tax Theory to Tax Policy: Retrospective and Prospective Views*. Cambridge Mass: MIT Press.

Deals with the translation of normative tax theory into policy advice. In the present context, this book is of interest for its discussion (in early and later chapters) of whether political feasibility ought to enter into normative tax design, as well as for discussion of how equity and efficiency ought to be combined in contemporary policy proposals.

Buchanan, James M. and Roger Congleton. 2006. *Taxation by Principle, Not Interest: Towards Nondiscriminatory Democracy*. New York: Cambridge University Press.

A contemporary and interesting restatement of the views of Hayek concerning the generality principle and the rule of law, and of Henry Simons. The authors advocate tax structures that limit the ability of taxpayers to lobby for favored tax treatment and so prevent the associated social costs of rent seeking.

Castanehira, Micael, Gaetan Nicodème and Paola Profeta. 2012. *On the Political Economics of Tax Reforms: Survey and Empirical Assessment*. *International Tax and Public Finance* 19(4): 598-624.

Reviews the political economy literature focusing on explanations of personal income tax systems and reforms, to see how political economy has been and can be used to explain changes in taxation. Tests some theories, using LABREF, a database that identifies labor tax reforms in the European Union for 2000–2007. Concludes that political factors carry more weight than economic ones.

Eccleston, Richard. 2007. *Taxing Reforms: The Politics of the Consumption Tax in Japan, The United States, Canada and Australia*. Edward Elgar.

Provides revealing accounts of the successful, though often difficult introduction of VATs in Japan (1989), Canada (1991), and Australia (2000). The author also recounts unsuccessful attempts to

place a VAT on the U.S. policy agenda. The book provides a useful review of the literature on how ideas, interests and institutions interact in shaping the politics of tax reform in democratic countries.

Graetz, Michael and Ian Shapiro. 2006. *Death By a Thousand Cuts: The Fight over Taxing Inherited Wealth*. Princeton N.J.: Princeton University Press.

Describes and analyses in detail the political process by which the U.S. estate tax was repealed, though not permanently, in 2001, even though it taxed only 2 percent of the richest taxpayers. The debate over wealth taxation assumes increased importance given proposals (see *Tax Commissions*) to reduce or eliminate taxation of income from capital and to flatten personal income tax rates.

Simons, Henry C. 1938. *Personal Income Taxation: The Definition of Income as a Problem of Fiscal Policy*. Chicago: University of Chicago Press.

Simons developed the theory of equitable taxation, calling for equal treatment of income from all sources, as part of a broader framework. Rooted in classical liberalism, he emphasized individual liberty and equality, and advocated institutions minimizing political interference in economic life. His work had a major impact on attempts to reform income tax systems, particularly in the U.S. and Canada.

Tax Expenditures, Complexity and Transparency

Questions about tax expenditures, tax complexity and fiscal transparency generally often arise in discussions about the reform of tax systems. A tax expenditure, as proposed by Surrey 1974, measures revenue foregone by granting exemptions and deductions. Such special provisions are regarded as undesirable, revenue - reducing deviations from an ideal tax system, though opinions differ widely depending on the approach to tax design adopted. Many governments produce tax expenditure reports every year, in which revenue losses are almost always estimated under an assumption that each special provision is exogenously determined with respect to taxpayer behavior, and (in contrast to much of the material covered in this bibliography) with respect to the political forces underlying the choice of tax instruments. Simplicity and transparency in fiscal affairs, in the view of tax expenditure advocates, would be well served by broadening tax bases through elimination of tax expenditures, and by replacing some tax expenditures with explicit public spending vetted by the legislature. Special provisions in any tax code are numerous, almost always growing in number in every democracy, and often regarded as the major source of tax complexity. Some recent work in spatial voting models the degree of complexity of a tax system in a competitive political equilibrium by considering the trade-offs between the gains from addressing individual characteristics of the electorate and the losses from diverting tax resources from the

provision of services to tax administration. In the literature included here, McDaniel and Surry 1985 provide an update to the work of Surrey 1974 and provide estimates by various authors of tax expenditures in different countries. OECD 2010 is a more up to date version of such international comparisons. Wildavsky 1985 provides a critical overview of the tax expenditure literature up to that time. Galli and Profeta 2005 theoretically, and Slemrod 2005 empirically model tax complexity in competitive political systems. Concerning fiscal transparency broadly conceived, Alt and Lassen 2006 consider empirically how transparency of taxation and in fiscal matters generally affects fiscal systems in O.E.C.D. countries over the business cycle, while Wehner and de Renzio. 2013 study the political and other determinants of budgetary transparency in a sample of 85 countries.

Alt, J and Lassen, D. 2006. Transparency, Political Polarization, and Political Budget Cycles in OECD Countries. *American Journal of Political Science* 50(3): 530-550.

This paper analyzes how institutional transparency and political polarization affect electoral cycles in fiscal policies. Conditioning on the authors' new index of fiscal transparency for a sample of 19 OECD countries in the 1990s, a pattern of electoral cycles is observed in low transparency countries but not in high transparency ones. Cycles are also found in politically more polarized countries.

Galli, Emma and Paola Profeta. 2009. Tax Complexity with Heterogeneous Voters. Symposium on Heterogeneity and Public Policy. *Public Finance and Management* 9(2). Online journal.

Models the trade-off between the benefits of complexity for a political party facing a heterogeneous electorate, and loss of political support that arises because a complex system is costly, diverting resources from the delivery of public services. See also *Hettich and Winer 1999, chapter 4* for a related model. The political incentives giving rise to complexity are what *Simons 1938* and *Buchanan and Congleton 2006* want to contain through broadly based taxation.

Surrey, Stanley S.. 1974. *Pathways to Tax Reform: The Concept of the Tax Expenditure*. Cambridge Mass: Harvard University press.

The seminal work on the tax expenditure concept, viewed through the lens of the Schanz-Haig-Simons ideal of a broad based personal income tax.

McDaniel, Paul R. and Stanley S. Surrey (eds.). 1985. *International Aspects of Tax Expenditures: A Comparative Survey*. Deventer, The Netherlands: Kluwer Law and Taxation Publishers.

The editors provide additional (to *Surrey 1974*) foundation for the tax expenditure concept. Subsequent chapters aim to provide comparative measures of tax expenditures for several countries. The authors distinguish between special provisions necessary to implement tax base

norms and those which, they claim, implement expenditure programs and are therefore less desirable.

Slemrod, J. 2005. The Etiology of Tax Complexity: Evidence from U.S. State Income Tax Systems. *Public Finance Review* (33): 279-299.

Variation in U.S. state income taxation is used to analyze tax complexity. Simple measures of complexity are introduced, based on the number of lines in the tax forms and the number of pages in the instruction booklet. The analysis shows that states with more professional legislatures and with a less active voting population tend to have more complex tax systems.

Tax Expenditures in OECD Countries. 2010. OECD, Paris.

This book analyzes the use of tax expenditure provisions in ten OECD countries: Canada, France, Germany, Japan, Korea, Netherlands, Spain, Sweden, the United Kingdom and the United States. The purpose here is to document international patterns, and no comparative explanation of them is provided.

Wehner, Joachim and Paolo de Renzio. 2013. Citizens, Legislators, and Executive Disclosure: The Political Determinants of Fiscal Transparency. *World Development* 41: 96–108.

Using an 85-country transparency index for 2008 (the Open Budget Index), the authors find that free elections have a beneficial effect on budgetary disclosure, and that they dampen the adverse effect on transparency of dependence on natural resource revenues. They also find that greater party fragmentation in democracies is associated with higher levels of budgetary disclosure.

Wildavsky, Aaron. 1985. Keeping Kosher: The Epistemology of Tax Expenditures. *Journal of Public Policy* 5(3): 413-431.

A critical review of the tax expenditure literature up to this point, including the work of *McDaniel and Surrey 1985*. Among other issues, the author raises the important question of 'whose money is this anyway?' (p. 414): that of the government that has not collected revenue because of the special provision in question, or that of the taxpayers from whom the money has not been taken.

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