The third reason is the effect of human capital accumulation on economic growth. Clague concludes that two general lessons can be drawn so far from the work on institutions and economic development. First, greater equality in wealth brings important economic benefits. Second, in many types of non-democratic situations, concentration of political power rather than its dispersion promotes economic efficiency and greater wellbeing among the poor. While the first conclusion sounds economically reasonable, the second seems at variance with Barry Weingast’s finding of the growth-enhancing effects of federal structures.

Overall, *Institutions and Social Order* provides an interesting, well balanced and well written collection of mainly political science contributions to a core issue of the development or transformation problem, that is, the possibilities of and impediments to rapid social development and economic growth through structural change. The book is highly recommended to those working this field.

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The orthodox public finance literature produces policy prescriptions that are seldom implemented. Perhaps the obvious flaws in standard general and partial equilibrium models can help explain the practical irrelevance of much research in this field.

General equilibrium (GE) models generally do a good job of identifying economically efficient tax systems. They do so by deducing the “best” distribution of tax rates across all potentially taxable activities consistent with raising some desired amount of revenue. The GE approach considers the interrelationships among and between different taxable activities. Specifically, the impacts of the taxes levied on one sector are incorporated into an analysis of the economy as a whole. A tax levied on corn, for example, will affect decisions to buy or grow substitute grains, such as wheat. A corn tax, because it alters the supply and demand for wheat, in part determines the optimal tax rate in the wheat market which, in turn, enters into determining the optimal corn tax, and so on.
However, the general equilibrium framework recommends tax policies that, while economically efficient, are rarely, if ever, put into practice. Perhaps its prescriptions are followed so infrequently because this approach does not take politics into account. GE modelers almost to a man completely ignore the collective choice process involved in tax policy formation. They assume that governments are benevolent and that public officials behave selflessly. This omission has serious implications. The optimal tax policies this approach calls for may be politically impossible if politicians, like citizens in the private sector, pursue their own parochial interests rather than those of society at large.

In contrast to GE, partial equilibrium (PE) models often incorporate self-interested government agents. Although several theoretical representations of collective choice processes exist, economists most often use the median voter theorem (MVT) to bring self-serving politicians and policy makers into the analysis. However, the MVT itself faces a severe limitation: it is unrealistic in assuming that policy issues are decided one at a time when in reality several issues are often considered simultaneously. This creates a problem since the median voter result falls apart in multi-dimensional issue space. To avoid these pitfalls, researchers have confined themselves to tackling questions that can be treated as one decision, such as a particular tax policy or the aggregate size of government.

The reliance on the MVT to define the constraints politicians face may account for why the PE paradigm has been used so extensively to analyze tax policy questions. The PE framework considers a single market independently of other markets. Scholars have assumed that this single market is the only one citizens care about and that all legislative proposals are considered separately. This theoretical setup ignores how a tax on one product or activity impacts the determination of optimal taxes elsewhere in the economy. However, while economists can safely ignore the effects a particular tax has on the overall pattern of economic activity, rational politicians do not have that luxury. They offer the electorate a set of tax policies, not just an optimal tax on, say, gasoline. Like firms making plant location decisions, the electorate considers fiscal policy as a whole when ballots are cast, not just the effects of one tax in isolation from all others. To its detriment, PE ignores the interrelationships between markets that the general equilibrium design captures so well.

Hettich and Winer attempt to remedy this defect by building a GE model with self-interested government agents. Their model brings the collective choice process to bear on tax policy formulation in representative democracies. Using notions of probabilistic voting (PV), a framework that is broader