

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis

Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

Democratic Choice and Taxation

This book examines tax policies and tax systems as they arise from democratic choices, set against the background of a market economy. The authors find that democratic institutions yield complex tax systems with features that follow a varied but predictable pattern. In developing their analysis, they use formal modeling of voting behavior, emphasizing recent advances in the theory of probabilistic voting.

The analysis in this book differs from the available tax literature by relating fiscal choices directly to voting and political competition and by examining tax systems in democratic countries from a variety of perspectives. The authors originally focus on explaining observed features of tax systems, but they also devote considerable space to discussion of the welfare and efficiency effects of taxation in the presence of collective choice, and they review other models and the related literature. In addition, they use applied general equilibrium analysis and statistical research on national and state governments in the United States and Canada to link theory to empirical data.

Walter Hettich is Professor of Economics at California State University, Fullerton. He has also held faculty positions at Carleton and Queen's Universities, Canada, and visiting positions at the University of California at Berkeley and Santa Cruz, and has been a research scholar at the University of Konstanz, Germany. He is the author of articles in the *American Economic Review*, *Journal of Public Economics*, *Canadian Journal of Economics*, *National Tax Journal*, *European Journal of Political Economy*, and *Public Choice*, among other publications. A former consultant to several departments of the Canadian government, he has also been named Outstanding Professor, School of Business and Economics, California State University.

Stanley L. Winer is Professor of Economics at the School of Public Administration, Carleton University, Ottawa, Canada. He has served as a visiting professor at the Universities of Montreal and Western Ontario, Carnegie-Mellon University, and Renmin University, China, and has held research fellowships at the Australian National University, the University of Haifa, and Statistics Canada. A consultant to several agencies of the Canadian federal and provincial governments, he has published articles in the *Journal of Political Economy*, *American Economic Review*, *Journal of Public Economics*, *Canadian Journal of Economics*, *European Journal of Political Economy*, *International Tax and Public Finance*, and *National Tax Journal*, among other periodicals. He is a co-author (with D. Gauthier) of *Internal Migration and Fiscal Structure* (Economic Council of Canada, 1982). Professor Winer was awarded a Research Achievement Award by Carleton University in 1998.

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis

Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

Democratic Choice and Taxation

A Theoretical and Empirical Analysis

WALTER HETTICH and STANLEY L. WINER



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis
Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press

The Edinburgh Building, Cambridge CB2 2RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org

Information on this title: www.cambridge.org/9780521622912

© Walter Hettich and Stanley L. Winer 1999

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 1999

This digitally printed first paperback version 2005

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data

Hettich, Walter.

Democratic choice and taxation: a theoretical and empirical analysis / Walter Hettich and Stanley L. Winer.

p. cm.

Includes bibliographical references (p.) and indexes.

ISBN 0-521-62291-3

1. Taxation. 2. Taxing power. I. Winer, Stanley L., 1947- .

II. Title.

HJ2305.H525 1999

336.2-dc21

98-26458

ISBN-13 978-0-521-62291-2 hardback

ISBN-10 0-521-62291-3 hardback

ISBN-13 978-0-521-02180-7 paperback

ISBN-10 0-521-02180-4 paperback

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis

Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

To the late P. Muros and my teachers – W.H.

To Albert and Shirley, and to Amalia, Avital, and Oren – S.W.

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis

Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

Contents

<i>Preface</i>	page ix
1 Introduction	1
PART ONE: THEORETICAL FRAMEWORK	
2 Models of Political Economy and the Study of Taxation	11
3 Foundations of Democratic Tax Systems	42
4 Tax Structure in Equilibrium: A More Formal Model	61
PART TWO: COLLECTIVE CHOICE AND THE NORMATIVE ANALYSIS OF TAXATION	
5 An Assessment of Normative Tax Theory	99
6 Welfare, Politics, and Taxation	121
PART THREE: APPLIED GENERAL EQUILIBRIUM ANALYSIS	
7 Tax Policy in a Computable Model of Economic and Political Equilibrium	153
PART FOUR: STATISTICAL ANALYSIS OF TAX STRUCTURE	
8 Introduction to Statistical Research	195
9 Income Taxation and Special Provisions: Evidence from U.S. States	212
10 Debt and Tariffs: The Evolution of the Canadian Revenue System	237

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis

Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

viii **Contents**

**PART FIVE: POLITICAL INSTITUTIONS
AND TAXATION**

11 Tax Systems in Congressional and Parliamentary Countries 265

12 Conclusion 284

Bibliography 295

Name Index 321

Subject Index 325

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis
Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

Preface

The foundation of this book derives from two sources. Like most writers concerned with public finance, we rely on traditional microeconomics and general equilibrium analysis to describe the economic decisions of individuals in the private sector. To this, we link formal modeling of collective choice behavior, relying in particular on recent advances in the theory of probabilistic voting. The book examines taxation as it arises on this joint foundation – as a result of the interaction of maximizing decisions in the private and public sectors.

Although the final form of the book reflects our special interests and concerns, we have attempted to present a balanced picture, one that is more comprehensive than commonly found in the literature on taxation that includes elements of collective choice. We examine taxation and tax systems in democratic countries from a positive or predictive point of view, but we also devote considerable space to discussion of efficiency and of normative concerns. In addition, we use applied general equilibrium analysis and statistical research to link theory to empirical data. We feel that taxation as it arises out of democratic choices can best be understood if examined from all these perspectives in relation to an expanded theoretical foundation that incorporates collective choice.

Although the book was written over the past four years, the material reported in several of the chapters evolved over a longer period. As our thinking developed, we benefited from the writings of many authors, whose specific contributions are acknowledged at various points in the text. We would, however, like to give special credit to the Scandinavian economists who pioneered research on the public sector, particularly to Eric Lindahl, whose later writings helped us see how the work reported in this book is linked to the Scandinavian tradition and how it extends that tradition in a new direction. Of course, we would also like to acknowledge our debts to those who encouraged us and who helped us undertake and complete this enterprise. Foremost among them are Thomas Rutherford, who carried out the analysis and co-authored with Stanley Winer the discussion paper on which Chapter 7 is based, and George Warskett, a co-author of Chapter 4. In addition, we benefited greatly from our contacts and discussions with Richard Bird, George Break, Geoffrey Brennan, Richard and Peggy Musgrave, Friedrich Schneider, and David Sewell, the late Irwin Gillespie, and the late Werner Pommerehne.

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis

Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

x

Preface

We would also like to thank those who made valuable comments on the manuscript (or portions of it) or on papers that later became chapters in the book in somewhat altered form. They include three anonymous referees chosen by Cambridge University Press, as well as Thomas Borcharding, Leonard Dudley, Stephen Ferris, and Dennis Mueller.

Others who contributed to research at various stages and in various ways include Marcus Berliant, Albert Breton, Peter Coughlin, Bruno Frey, Gianluigi Galleotti, Berndt Genser, the late Douglas Hartle, Louis Hotte, Nurul Islam, Larry Kenny, Herbert Kiesling, David Laband, Allan Maslove, Gilbert Metcalf, Jack Mintz, Claude Montmarquette, Rebecca Morton, Thomas Rymes, Pierre Salmon, Karl Scholz, Anthony Scott, Hirofumi Shibata, Dan Usher, Frans van Winden, Edwin West, Ronald Wintrobe, David Wong, Shlomo Yitzhaki, Akira Yokoyama, and Robert Young.

Some of the ideas developed in the book were presented in preliminary form at international conferences. We would like to acknowledge helpful comments by participants at Villa Colombella Conferences in Italy, France, and Canada, at International Seminars in Public Economics in Amsterdam, Linz, and Oxford, at the Workshop on International Taxation at the University of Konstanz, Germany, and at the Tax Conversations Conference in Sydney, Australia. In addition, we want to thank the members of the Faculty and Student Seminar in Economics at California State University and of the Workshop in the Evaluation of Public Budgets at Carleton University for comments on various papers related to the book.

Nothing in this book has been published before in the exact form it has taken here. We have, however, used material from previously published papers of ours. For their kind permission to do so, we wish to thank the following: *International Tax and Public Finance*, the *Journal of Public Economics*, the *National Tax Journal*, the *Osgoode Hall Law Journal*, the American Economics Association, Cambridge University Press, Elsevier Science Publishers, Kluwer Academic Publishers, and Kluwer Law International. Full citations are given in the bibliography.

While working on the manuscript we benefited from the hospitality of several universities. Stanley Winer spent three months at Australian National University in the summer of 1996 and the fall term of the same year at the University of Montreal, and Walter Hettich was a visiting research scholar at the University of Konstanz for a two-week period in 1993. He would also like to thank the School of Public Administration at Carleton University for providing office facilities during several research visits.

We are grateful to the Social Sciences and Humanities Research Council of Canada for financial support over a number of years. Walter Hettich would like to acknowledge release time from teaching obtained from the dean of the

Cambridge University Press

0521021804 - Democratic Choice and Taxation: A Theoretical and Empirical Analysis
Walter Hettich and Stanley L. Winer

Frontmatter

[More information](#)

Preface xi

School of Business and Economics at CSUF in connection with published research papers related to material in the book.

Thanks should also go to those who served as research assistants, particularly to Maria Javenia and Wannakan Phiryapreunt. We are indebted to our editor Scott Parris for his unstinting support, to Kelly Donovan, who drew all the figures, and to Ted Reed and Avital Winer for their assistance with the editing. Finally we thank Amalia Winer for her understanding and support over the years. While we are grateful for all the help received, we accept full responsibility for any errors that may have crept into any part of the book.