The Frailty of Economic Reforms: Political Logic and Constitutional Lessons*

By Niclas Berggren**

Abstract. Why are efficiency-enhancing reforms often frail and subject to being undermined over time? Two theories are examined: public-choice theory, which explains this as the possible result of a need, from time to time, to wipe the slate clean in order to retain productivity in the distribution of favors to interest groups, and a theory which acknowledges that politicians may implement reforms for ideological reasons but still, as time passes, be influenced by the logic of the political and media systems to abandon their initial aspirations. In any case, the demise of reforms is partly a function of the constitutional setting: rules which encourage shortsightedness and easy satisfaction of interest-group agendas make it difficult for decision-makers to withstand pressure for legislative change. Avenues to mitigate these problems through constitutional reforms are explored.

JEL Classification. D70, E65, H20, H30.

Keywords. Tax reform, Political incentives, Constitutional reform

---

* The author wishes to thank Geoffrey Brennan, Dan Johansson, Nils Karlson, participants at the European Public Choice Society Meetings in Siena, Italy (April 26-29, 2000), and two anonymous referees for helpful comments and suggestions, and Torsten och Ragnar Söderbergs stiftelser for financial support.

** The Ratio Institute, P.O. Box 5095, SE-102 42 Stockholm, Sweden. Phone: +46-8-58705404. Fax: +46-8-58789856. E-mail: niclas.berggren@ratioinstitutet.nu

1 INTRODUCTION

A notable feature of economic policy-making in the 1980s and 1990s has been the implementation of sometimes radical reforms, e.g., of tax systems, of public regulation of markets, and of financial systems, which have increased economic efficiency.[1] Another notable feature of the latter part of this period is the *demise* of some of these reforms, in the sense that what they set out to achieve, and indeed did achieve, has turned out, in some important respects, not to be very long-lasting. Hence the question: Is it possible to increase the probability for bad policies not to be implemented after good reforms and, if so, how could this be done?

In order to answer this, certain other things need to be clarified, such as what makes certain reforms desirable and why they are implemented and then sometimes undermined. Indeed, the main analytical problem of the paper is to try to offer explanations for why political decision-makers who themselves, at the time of implementation, regarded these reforms as good later reneged on them. A public-choice theory is contrasted with a theory that also includes ideology as a motivating factor of political action.

The type of reforms analyzed here is referred to as 'good,' by which is meant reforms that contribute to a better satisfaction of the public interest. By the satisfaction of the public interest is, in turn, meant a situation characterized by the satisfaction of the long-term preferences of most

[1] For discussions and comparisons of tax reforms in different countries, see Whalley (1990) and Sandford (1993). As pointed out by Peters (1991), it is noteworthy that tax reforms occurred in so many countries at about the same time, that the proposals were so similar between these countries, and that they passed through the political process so successfully. For attempts at analyzing the reasons behind radical policy changes, see, e.g., Buchanan (1980), Keeler (1984), Wallis (1989), North (1991), Witt (1992), Rodrik (1993), and Haggard and Webb (1993). Cf. Brennan and Kliemt (1990).

citizens within legally specified boundaries in the form of rights and principles.[2] By 'long-term' preferences is not meant actual preferences but, rather, preferences in a situation where individuals have knowledge of the general consequences of actions and decisions, both in the present and in the future, without knowing their exact positions.[3] By 'within legally specified boundaries in the form of rights and principles' we refer to legal and absolute constraints on actions, irrespective of the consequences, as perceived by most people's long-term preferences.[4]

In the case of tax reforms (which is the example used in this paper), this way of defining goodness implies that a good tax reform is one that results in a tax system that better satisfies citizens' long-term preferences compared to the pre-reform system. This could be achieved in various ways, but one obvious way, and one which was prominent in the stated rationales for several actual tax reforms in the 1980s and 1990s, is to increase efficiency without altering the equity situation. Such a change implies that a given input could yield a higher output or that a given output

---

[2] This definition should be considered tentative. One problem concerns the case where a minority has strong preferences and a majority weak ones: should not the former be able to outweigh the latter without this implying that the public interest is not being served? Possibly, the part of the definition that introduces rights can solve most instances of this problem. Cf. Hare (1981, pp. 142, 154-155) and Posner (1987, ch. I). Another problem concerns the subjectivity that follows from using the concept long-term preferences. Since these actually do not exist, assessments of a rather subjective nature are invoked.

[3] This is the application, to borrow a term from Hare (1981, p. 105), of 'a requirement of prudence' when looking at preferences. Long-term preferences are akin to preferences behind a veil of ignorance – cf. Rawls (1971) – but differ from them in the sense that individuals are not assumed entirely *ignorant* about the position of themselves, nor about the positions of others. They are, however, assumed to be *uncertain* in this regard – cf. Brennan and Buchanan (1985, p. 30).

[4] Such rights, a kind of 'trump cards,' to use the term used by Dworkin (1977, p. xv), which cannot legally be put aside, can be motivated on the basis of several different philosophical approaches. Cf. Rawls (1971, pp. 130-136), Nozick (1974), Buchanan (1975), Hare (1981, ch. 9), Sen (1987), and Almond (1993).

could be achieved with a smaller input than before, all else equal, which in both cases would result in higher citizens' long-term preference satisfaction (since more goals could be reached for the same cost, or the same goals be reached at lower cost). Naturally, other tax reforms, with other effects, could also increase the extent to which the public interest is fulfilled.[5]

One problem with this way of defining the concept is that it seems to require of the economist that he not only act in an analytical, positive manner but also in a normative vein. Could there, after all, not be many other ways in which to define goodness, and is the economist proficient in discriminating between normative alternatives? Of course, there are other possible ways of defining goodness (one other has been mentioned here). However, this problem need not be regarded as severe if the definition offered here is viewed as hypothetical and tentative, in the following sense. The positive economist does not *qua* economist advocate one normative view over another: he merely accepts one definition (which he probably deems plausible but not necessarily optimal) and proceeds by analyzing how that particular understanding allows him to evaluate certain forms of behavior and outcomes. In a similar fashion, alternative understandings could be analyzed in a similar manner.[6] Hence, the research task is strictly positive in that the mechanisms leading to the undermining of any good reform, for some given definition of good, are at the center of the analysis.

---

[5] An alternative way of defining goodness, not used here, would be to say that a reform is good when it is considered desirable by its implementors at the time of implementation. The problem with this way of defining goodness is that any political decision, almost by definition, could be termed good, including actions reneging on previously implemented reforms. Hence, the concept becomes tautological. Note, however, that this way of defining goodness *de facto* becomes quite similar to the other definition *if* a certain reform was desired by decision-makers for bringing about a better fulfillment of the public interest through higher efficiency without altering the income distribution

[6] Cf. Buchanan (1959).

Note that with the definition given above, it becomes synonymous to talk about a good reform and an efficiency-enhancing reform (supposing, whenever the latter term is used in this paper, that no equity – or other relevant – effects arise as a result of the reform).

It bears noting that tax-system changes subsequent to the implementation of a good reform are not necessarily undesirable: it could be that circumstances change and/or that decision-makers realize that the changes are required to uphold or increase efficiency. But they *could* very well be undesirable, if they occur as the result of interest-group pressure or shortsighted voter demands. One central dilemma here is to devise constitutional rules that enable the former type of changes (which are efficiency-enhancing in the long run) whilst making changes of the latter type (which are detrimental to long-term efficiency) more difficult. In the case of tax policy, the latter type of basis for policy changes seems to dominate.

The structure of the paper is as follows. Section 2 outlines two theories of how efficiency-enhancing reforms come about and whither. Section 3 takes the insights of the preceding sections as the starting point for an inquiry into concrete avenues of constitutional reform that could mitigate the problem of deserting good reform elements. Concluding comments are presented in section 4.

2 THE POLITICAL LOGIC OF THE RISE AND FALL OF TAX REFORMS

As a basis for the analysis of this paper, the example of tax reform will be used. Think of such a reform that increases economic efficiency, e.g., by reducing the progressive character of the income-tax system or by shifting taxation from elastic to inelastic tax bases, without changing the tax system's equity effects. What explains its coming about? In standard public economics, this issue is hardly ever dealt with: it is assumed, implicitly, that a benevolent welfare maximizer implements the best possible policies and sticks to them. This, however, is at best an unrealistic, and quite possibly a misleading, assumption, as stressed in public choice theory.[7] The purpose of this section is to outline two theories which try to capture the possible political logic behind tax reforms and to take these as a basis for trying to understand why tax reforms come about, deteriorate, and (in the next section) how the deterioration can be made less severe. One, both or none might be correct, and which of these alternatives holds is an empirical issue not dealt with further here.

The first theory is derived from public choice and posits that tax policy is set in an ongoing cycle, such that policy is determined by politicians set on entering into mutually beneficial exchange with interest groups and/or groups of voters. *The second theory* is somewhat in line with standard public economics, with political decision-makers initiating tax reform out of a pure concern for efficiency and equity — but with the important addendum, that they are later induced, or forced, to abandon key, efficiency-enhancing reform elements because of the logic of the political and media systems.[8]

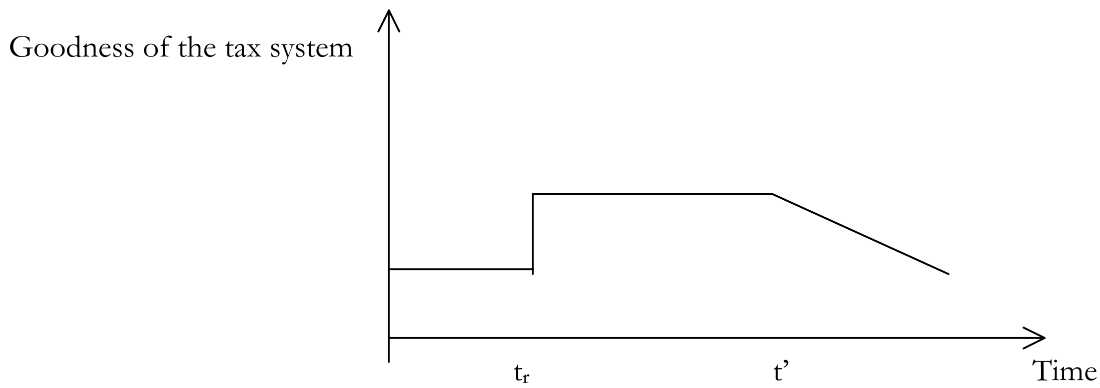
To illustrate the problem analyzed, consider Figure 1. At time t_r a tax reform is introduced that increases economic efficieny without altering equite effects; hence, it brings about a better tax system. At time t', the policies introduced through the reform are gradually beginning to be removed, worsening the tax system.

---

[7] For a survey, see Mueller (1989); also see Buchanan (1967).

[88] The first theory is akin to what Karlson (1993) terms 'the logic of opportunism,' whilst the second theory describes 'the logic of conceit.' Cf. Ikeda (1997).

Figure 1. The implementation and gradual erosion of a good tax reform



2.1 Theory 1: Tax-Reform Cycles

This theory says that tax reform may be understood as a component of an ongoing *tax-policy cycle*, which in essence means that more or less comprehensive tax reform is a recurring phenomenon that is driven by a mutually beneficial interaction between politicians and their potential or actual supporters, in the form of groups of voters and interest groups.[9]

Generally, a politician is assumed to want a tax reform when he expects the reformed tax system to give him a higher utility than the present system. Looking at the utility function of a politician, the relevant factors to take into consideration in making such an assessment are the effects on the number of votes and interest group contributions (where the latter need not be of a monetary

[9] On this approach to economic, not the least tax, policy, see Brennan and Buchanan (1980), DiLorenzo (1985), Hettich and Winer (1985, 1988), McCaleb (1985), Wagner (1985), Buchanan (1987), Lee and Tollison (1988), McChesney (1988), Spindler and Walker (1988), van Velthoven and van Winden (1991) and de Vanssay and Spindler (1994, esp. footnote 15). On interest groups in general, see Potters and Sloof (1996).

kind). Hence, a pro-reform politician expects those factors to be influenced by a reform in such a way that his utility increases, on net.[10]

The process can be outlined in the following way. Suppose that a politician announces a tax-reform plan, which he will try to get approved and implemented. This announcement causes voters and interest groups to reassess their attitudes and, possibly, their actions (in terms of votes and contributions). Each voter will evaluate, based on the information he possesses, how the reform will affect the arguments of his utility function.[11] If the net effect is perceived to be positive at some point[12], then the propensity for the voter to support the politician who launched the reform — by voting for him in the next election — increases, *ceteris paribus*.[13] Hence, the politician (in general fairly well informed about the electorate) holds certain beliefs about the aggregate response of the voters to the reform plan, which he translates into utility terms. This is the first of the two utility effects for the politician of a tax reform.

---

[10] See Peltzman (1976). A politician's utility function can be formulated thus: $U_i=U_i(V_i, B_i)$, $i=1, ..., s$, where V=the number of votes in the next election and B=benefits conferred from interest groups; $(\partial U_i/\partial V_i)>0$ and $(\partial U_i/\partial B_i)>0$. A necessary condition for a politician to advocate reform is for its resulting effects to satisfy $\Delta_P \equiv [(dV^*\partial U/\partial V) + (dB^*\partial U/\partial B)]>0$, where this applies to the long term (that is, the 'full' utility effects of reform have been realized).

[11] $U_i=U_i(Y_i, T_i, PU_{\neq i}, I_i)$, $i=1, ..., n$, where Y=gross income, T=total tax burden, $PU_{\neq i}$=(subjectively) perceived utility of voters other than i, and where I=pure ideology (defined in section 2.2); $(\partial U_i/\partial Y_i)>0$, $(\partial U_i/\partial T_i)<0$, $(\partial U_i/\partial PU_{\neq i})<0$ (this is envy), and $(\partial U_i/\partial I_i)>0$.

[12] I.e., if $\Delta_V \equiv [(dY^*\partial U/\partial Y)+(dT^*\partial U/\partial T)+(dPU_{\neq i}{}^*\partial U/\partial PU_{\neq i})+(dI^*\partial U/\partial I)]>0$.

[13] If $\Delta_V>0$, this constitutes neither a sufficient nor a necessary condition for the voter to cast his vote for the politician behind the reform in the next election. First, the relevant Δ_V is the one calculated precisely prior to the vote decision. Second, the tax reform is only one of a bundle of issues which the voter uses as a basis for his vote decision. The only thing we can say is that his propensity to vote for the reforming politician increases if $\Delta_V>0$ at the time of his casting his vote and that this propensity is higher, the larger the utility change.

The second effect has to do with the aggregate interest-group response to a reform.[14] An interest group's conferring of benefits upon a politician is part of a two-party exchange, where these benefits are positively correlated to the gains the interest groups expect to experience from the politician. So if a tax reform entails expected net utility gains for an interest group (e.g., by including some sort of new, advantageous tax treatment), then that group will support the sponsoring politician stronger than before, and plausibly, the contributions will increase.[15] As in the case of voters, the politician translates his beliefs about how interest groups will react to his reform proposal into utility terms. One feature of interest groups which is of interest is the role that group size plays. Given an ability to use the government budget in a flexible way (i.e., given the availability of either a budget surplus or a soft budget constraint), *or* given a revenue-neutral reform, politicians are more interested in securing the support of *large* interest groups, as they can contribute more than small ones can (i.e., the dU/dB resulting from a reform is larger the larger the favored group(s)). This implies that it is probable that the net effect (the total dU/dB) is positive as a result of a reform if the support of large groups can be secured.

All in all, then, the politician tries to assess the total utility effects of proposing a tax-policy change prior to presenting the proposal. If he expects $\Delta p>0$, he will go ahead with it.

---

14 $U_i=U_i(Y_i, T_i, PU_{\neq i}, I_i)$, i=1, ..., r, where Y=sum of gross incomes of all members, T=sum of total tax burdens of all members, $PU_{\neq i}$ =sum of (subjectively) perceived utilities of all members of any group other than i, and where I=pure ideology (defined in section 2.2); $(\partial U_i/\partial Y_i)>0$, $(\partial U_i/\partial T_i)<0$, $(\partial U_i/\partial PU_{\neq i})<0$, and $(\partial U_i/\partial I_i)>0$.

15 More specifically, if a reform results in $\Delta_I \equiv [(dY*\partial U/\partial Y)+(dT*\partial U/\partial T)+(dPU_{\neq i}*\partial U/\partial PU_{\neq i})+(dI*\partial U/\partial I)]>0$, then the interest group in question supports it. Also, $B=B(T, PU_{\neq i}, I)$, where $(\partial B/\partial T)<0$, $(\partial B/\partial PU_{\neq i})<0$ (the latter derivative is negative unless the change in $PU_{\neq i}$ results from a change in an ideological factor valued similarly by i), and $(\partial B/\partial I)>0$.

The idea of a *tax-reform cycle* can be inferred from this model.[16] Generally, we assume that politicians (just like everybody else) are constantly trying to find ways to increase their utilities as much as possible, subject to the relevant constraints. Suppose that, at some point in time, with a certain tax system in place and with a certain history of tax policy and of interactions between politicians, voters, and interest groups, a politician comes up with an idea for tax reform (perhaps after having listened to some economists). He draws up a proposal for himself, paying attention to resource constraints and political constraints (i.e., he must consider how his proposal may change as a result of negotiations with other politicians, the support of which is necessary for the proposal to pass through the legislature), after which he makes an assessment regarding the net effect of this reform on his utility. He will try to get it implemented if $\Delta p>0$ holds and if no other feasible alternative can be expected to yield a higher increase.

Suppose next that the reform is implemented, as a consequence of a sufficiently high number of legislators having reached a conclusion to the effect that their net utility will increase by means of

[16] This type of cycle is of a different kind than the majoritarian cycles discussed in social-choice and public-choice theory (for an overview, see Mueller, 1989, ch. 5; cf. Cooter, 2000, p. 37 ff.). The latter cycles are a feature of majoritarian decision-making and denote that policy durabilityis not to be expected as majorities constantly shift, under certain behavioral, informational, and institutional assumptions, which include an assumption of decision-makers having durable preferences. Underlying the tax-reform cycles discussed here is an assumption that policy cycles stem not necessarily from shifting majorities, in the sense of new constellations of decision-makers getting together to alter what another constellation has decided on previously, but from the same people (or parties) changing their preferred policies over time as a result of interaction with the external world (voters, interest groups, media, new knowledge). On the normative side, majoritarian cycles were derided by Arrow (1951) but lauded by Buchanan (1954), as he thought it important, given politics as it is, not to have too durable majorities that could exploit minorities. However, taking into account changing preferences, the presence of interest groups and imperfect information, as we do when analyzing tax-reform cycles, changing policies need not reflect a smaller risk of exploitation but entail negative economic effects more generally.

the reform. The ensuing tax system will remain intact until some politician thinks of a new idea for tax-policy change and until that idea has passed the legislature in the manner just described. This is a general description of a tax-reform cycle: tax reforms, or (more or less major) tax-policy changes, will occur repeatedly (albeit possibly irregularly) over time, and they will occur as a result of a sufficient number of politicians finding reform to be in their own interest. That is, they expect reform to increase their net utility through affecting the voters' vote decision and the benefits conferred upon them by interest groups. In assessing these two effects, the reform proposal incorporates parts which serve to influence voters and interest groups and, thus, reinforce the mutually beneficial exchange between politicians and their supporters. It is essential to pay attention to the fact that both politicians and interest groups, and also voters, to some extent, take account of the full potential effects and properties of a post-reform tax system when they evaluate a reform, which is to say that they look not only at the reform *per se* but also, at least as much, on the ensuing tax system and the possibilities for (new varieties of) mutually beneficial exchange that it provides, especially in comparison to the tax system without any reform. Thus, one may term the perspective of the actors a *dynamic* one in the sense that it includes a time dimension sufficient to incorporate the *full* (direct and indirect) effects of a reform.

Now, if a given tax system serves the politicians badly in the sense that it is unproductive — i.e., it is hard for them to find ways to enhance their utilities — then a reform is to be expected. Both economic and political factors may be of relevance here. Hence, on the economic side, if a tax system affects the working properties of the economy such that it, e.g., hampers economic growth or hinders government revenues to reach its maximum point (due to the Laffer effect), this may induce politicians to change the system. Why? Because they see high revenues, for instance, as valuable for sustaining profitable ties with supporters. No doubt, an economy in 'crisis' renders the politician-supporter interaction strained, as the cake to be divided is shrinking (or at least not growing) and because of the actions which politicians may have to undertake — without much consideration to supporters' requirements — in response to demands from lenders.

There is also a more political aspect in that a tax system may, in itself, be unproductive from the point of view of the politician who desires to interact with supporters in a mutually beneficial fashion — without direct regard to the workings of the economic system. As described by DiLorenzo (1985),

> The granting of loopholes by politicians is subject to diminishing returns, just as all other activities are. The marginal political benefit of granting additional tax preferences will fall over time. It is also likely that the marginal political costs (to the politician) are rising, for with increased complexity of the tax system comes greater dissatisfaction on the part of voters who complain that the tax system is too complicated and unfair. Thus, at some point it is not politically profitable to create further loopholes. (pp. 403-404)

That is, the tax system may deteriorate in the sense of becoming so ridden with complicated and manifold rules and exemptions that it gets hard to use for the politicians' own purposes. At this point, reform can be expected — and probably reform leading to a 'cleaner' system, based on abolishing most sorts of preferential treatment. Such a system would be very politically productive in that many new 'goodies' could be distributed to those supporters who the politicians expect to deliver the most in terms of votes and/or different kinds of contributions. This may then constitute the *demise* of some major, efficiency-enhancing tax reform.

There may also be a visual element in this process, in the sense that a given action by some politicians may have different effects on their actual and potential supporters in that the perceptive capability of the latter can be expected to vary negatively with the complexity of the tax system. Hence, if the tax system has grown very complicated, it may be harder than otherwise to get the attention of supporters when some measure is taken, and vice versa, and to the extent that this idea is correct, it reinforces the idea of tax reform as a rent-seeking cycle. Again, in the words of DiLorenzo (1985),

> But once the slate is wiped clean and most loopholes are eliminated, the same politicians who benefited from voting for some version of the flat tax can then benefit further by 'starting over' and granting more loopholes, the marginal political value of which would then be relatively high. (p. 404)[17]

So, theoretically, reform may be initiated — and later abandoned in key respects — for various self-interested reasons, and only empirical analysis can reveal how important the different considerations are in the policy process and how this model fares when compared with one which includes more ideological, or altruistic, concerns.[18] Before offering a comparison, an example of the latter type of model will be looked at.

2.2 Theory 2: Efficiency Deterioration due to Public Pressure

The mechanisms at work in our second theory are not all that different from the ones just described, but while the first theory captures many of the driving forces behind tax reform, it may be too stark in its exclusion of ideological factors. Hence, we start with a richer motivational assumption for

---

[17] See Spindler and Walker (1988, p. 72) and Buchanan (1987, pp. 33-34) for similar analyses.

[18] Buchanan (1987) suggests, 'This rent-seeking hypothesis will clearly be tested by the fiscal politics of the post-1986 years. To the extent that agents do possess discretionary authority, the tax structure established in 1986 will not be left substantially in place for decades or even years.' (p. 34) Cf. Aaron and Galper (1985, p. 131).

politicians. Above, they were supposed to act solely out of a concern for more votes and interest-group support, whereas now they are also driven by pure ideology.[19,20]

This means that politicians, when contemplating tax reform, not only consider the expected effects on the number of votes and benefits they receive but also how to obtain a better tax system in itself, assumed here to entail higher economic efficiency for a given equity goal. Reform may consequently be undertaken by virtue of its bringing about a better-working economy.

A few things should be noted about the motivating factors of politicians in this model. First, a trade-off may exist between ideology and the number of votes, such that if a politician attempts to

---

[19] Kalt and Zupan (1984) define the term in the following manner: 'Political ideologies are more or less consistent sets of normative statements as to best or preferred states of the world. Such statements are moralistic and altruistic in the sense that they are held as applicable to everyone, rather than merely to the actor making the statements. /.../ Behavior in accordance with such statements has two possible sources: 1) the direct appearance of altruism in actors' preference functions (termed "pure" ideology); and 2) a convenient signalling mechanism when information on political decisions is otherwise costly.' (p. 281) In terms of the utility function of the politicians, this adds a third argument: $U_i=U_i(V_i, B_i, I_i)$, $i=1, ..., s$, where I=pure ideology; $(\partial U_i/\partial I_i)>0$. Above, it will basically be discussed what can be said if $U_i=U_i(I_i)$, $i=1, ..., s$, and where V and B may only be valued as means for implementing I.

[20] There is no consensus in the economics literature — neither on a theoretical nor on an empirical level — as to whether such a thing as ideology matters. Stigler (1971, 1982), Peltzman (1976), Becker (1983) and Peltzman (1984) are examples of the Chicago approach to political economy, which essentially states that ideology does not matter; the same view is held by McCormick and Tollison (1981) of the Virginia school. Others have argued to the contrary, e.g., Kau and Rubin (1979), North (1981), Dougan and Munger (1989), Kalt and Zupan (1990), Myhrman (1994), and Wärneryd (1994) — although several of these argue for the existence of, or show the rationale for, ideology as defined by point 2 in Kalt and Zupan (1984, p. 281). Most recently, Brennan and Hamlin (2000) explicitly depart from the stark assumption of pure self interest in politics and try to build a bridge between that public choice-tradition and more orthodox assumptions in political science. Actors are perceived here to be both rational and 'somewhat moral.' The implications of this starting point is analyzed further with respect to several democratic phenomena, such as voting and institutional design.

increase one of the two, the other decreases. E.g., this will be the case if the politician pursues a policy for ideological reasons which is at odds with the desires of the voters and if they are sufficiently informed to notice it. But it is not necessarily the case that pursuing an ideological issue causes the number of votes to decline: if the issue is received favorably by the electorate (although this was not decisive for the politician's decision to pursue it), then the ideological factor and votes are jointly pursued. It is, however, clear that the presence of voters, and the need for the politician to secure their support, may put a restriction on the politician's wish to implement his own ideological policy preferences.

Second, this reasoning also applies to the relationship between politicians and interest groups: a trade-off may likewise exist between benefits from supporting groups and some ideological factor. Third, there may be a trade-off between the number of votes and benefits from interest groups. And lastly, it could be that a politician must weigh various ideological goals against each other.

All in all, the politician is assumed to balance all of these potential conflicts on the margin in his utility-maximizing decision: he tries to obtain the number of votes, the interest-group benefits, and the ideological satisfaction that, *in combination,* with account taken of all interdependencies and constraints, gives him the highest utility.

Now, if it is the case that politicians pay heed to ideology when deciding on policy, it is trivial to explain tax reform: it comes about simply because politicians themselves want it. But how can the demise of efficiency-enhancing reforms be explained? According to theory 1, ideology plays no role in politics, and the demise is simply the result of politicians perceiving personal utility gains from implementing and then deviating from reform. This reasoning is also compatible with the present theory, if we assume that politicians put little or no weight on ideology. But what if they do? Can the erosion of an efficiency-enhancing tax reform, implemented by politicians primarily valuing efficiency and equity, be explained?

We believe so. Klein (1994) explains how bad outcomes may emerge on the basis of decisions of good and sincere people, in certain contexts and cultures. This implies that politicians may be people of a sort, not necessarily set on promoting their narrow self-interest (at least not as they see it), but instead quite willing to change policy if they think that this promotes, directly or indirectly, the general well-being. This may bring about the abandoning of key efficiency-enhancing elements of a previous tax reform, for basically ideological reasons. A key factor in this process is media pressure.

Modern politics is heavily influenced by the existence and functioning of forums for mass communication, such as radio, television, newspapers, and the Internet.[21] This influence is not as of yet well understood in the economic theory of politics, but suffice it here to note that the way important segments of the media deal with complex issues is often simplified, focused on short-term, static, and most often distributional, as opposed to efficiency, effects,[22] filled with very personal and tear-ridden stories, prone to using simplified, emotional language, uninterested in reporting good things that are as opposed to possibly bad things that may come about, and a frequent user of shallow polls.[23] These are tendencies which may make politicians believe that public sentiments are in a certain way, maybe because much of public sentiments *are* like that, perhaps themselves plagued by media reporting and reinforcement. This may be driven by the profit maximization of the media;

[21] On the political role and effects of the media, see, e.g., Entman (1990), Davis (1998), Swanson and Mancini (1996), and Kahan (1998). Cf. Anderson (1999). See Spindler and Walker (1988, pp. 76-77, 79-83) on the role of the media in the context of Canadian tax reform.

[22] This may be because it is difficult to explain long-term effects ('what is not seen') as opposed to very concrete, short-term effects ('what is seen'); see Hazlitt (1979, ch. 1).

[23] See Bergström (1994, 1998).

another explaining factor could be an ideological bias of journalists.[24] For this analysis to old, it is probably necessary that citizens are plagued by cognitive shortcomings - sometimes referred to as rational ignorance, a problem catered to and exacerbated by the media system, which leaves room for oftentimes simplified rhetoric and reasoning which have a tendency to generate non-optimal policies — such as the fall of a tax reform.[25]

Let us consider how a setting such as the one just described, with ideologically motivated politicians set on promoting efficiency and equity in a hectic media climate, can help us understand how an efficient tax system can be made less efficient. There are at least two ways to understand such a course of events: *either* as not-so-knowledgeable politicians learning (or thinking they learn) more about the effects of different policies over time and revising policies as new insights dawn on them (refer to this as theory 2a); *or* as knowledgeable politicians who willingly sacrifice some state of affairs, which is satisfactory in itself, from an ideological perspective, but which must be sacrificed in order for the politicians to be re-elected and for them to remain in a position of power from where ideologically motivated policies can be implemented in the future (theory 2b).

First, politicians could think themselves or be in possession of less-than-perfect information about the working properties of the economy and/or the preferences of the electorate. This implies a (perceived) scope for learning.[26] The effect of a media system functioning as above on politicians could very well be to convey to them an image of reality which speaks to their ideological convictions on equity. That is, they think that they must adjust the tax system, in an efficiency-reducing manner, to increase equality: while they care for both of these, they now think that they have not given sufficient weight to the latter. From time to time, though, it may very well become apparent to them

[24] On the latter, see Goff and Tollison (1990), Payne (1991, pp. 71-75) and Sutter (2001).

[25] See the special issue of *Critical Review* (1999), vol. 12, No. 4.

[26] Cf. Jonung (1999) for a presentation of theories that explain changes in economic policy as the result of new learning.

that over the long term, equality did not increase due to all the changes, and efficiency did indeed fall. This could cause consternation and an interest in reforming, not only the tax system in an efficiency-enhancing manner, but also the institutions guiding the political game. This without any malice in the way in which politics had been carried out.

Second, politicians could be quite well-informed both about economics and electorate preferences, but in a hectic media climate, with fierce competition from political alternatives, it may be thought necessary to implement policies which are not *per se* in line with the preferences of the politicians. The perceived necessity stems from a desire to implement as much of the ideological program as possible *over the long term*: hence, sacrificing some ideologically right policies today in order to be re-elected and in a position to carry out more or more important ideologically right policies in the future induces politicians to, say, sacrifice efficiency as a short-term way of catering to the voters, influenced strongly by the media, in ways outlined above. In other words, politicians are willing to compromise with what their ideology dictates up until a point where the probability of being elected is sufficiently high to make it probable that more action in line with the ideology can be undertaken compared to not having been elected at all as a result of always sticking to the ideology. This way of acting takes the media system as given, and the question becomes one of deciding how to optimize power, dynamically, in such a setting. The media may influence the politicians here, but the reverse may also hold: to get across, simplified, catchy messages may often thought to be needed by those formulating the political messages.

2.3 A Comparison

Two different models of what drives politicians have been outlined. First, it was posited that they only act on the basis of self-interest: securing the utility-maximizing combination of votes and grants from supporters is at the forefront of what guides their actions. Second, two variants of an ideological motivation were presented.

On the basis of each of these, several ensuing policy shifts could be explained: from inefficiency, towards more efficiency, and finally towards less efficiency, where efficiency is regarded as good and inefficiency as bad. The point of demonstrating that such a development can be explained irrespective of what model we start from is, firstly, that observed phenomena are comprehensible even though analytical starting points may differ and, secondly, as will become clear in the next section, that this assists us in working out realistic solutions at the level of the constitution. Plausibly, reality is not as clear-cut as either model: few would dispute that people, including politicians, retain elements of both self-interest and pure ideology when pondering how to act.[27] One could, of course, imagine one integrated, more general model of the motivational bases of political decision-making instead of having two (or three) separate ones. For our purposes, however, we think it is not needed. Each of the specified models can be viewed as entailing 'ideal types,' and all such models necessarily involve simplifications to highlight a certain feature. Furthermore, such a general model, which would have to explain such complex matters as switches in one decision-maker between altruistic and egoistic grounds for action, is very difficult to produce and somewhat beyond the scope of this paper. Suffice it to note that the mechanisms captured in the models apply to the real world in a complex manner of co-variation.

It, may, lastly be remarked that the mechanisms outlined seem to present a dismal view of democratic process. On the first model of politics, political decision-makers do not want to act in the public interest; on the second, they are not able to (either because of the politico-media logic or because of insufficient knowledge of facts). However, these models should not be interpreted such

[27] For a largely empirical analysis of the driving forces behind the Swedish tax reform of 1990-91, along these lines, see Berggren (1995).

that democracy is not a desirable basis for a political system – in fact, such an assessment should always be comparative, and it still seems clear that democracy is the least malfunctioning system in existence. Furthermore, as is the theme of next section, democracy can be designed in many ways, and it is possible to mitigate all of these problems to some extent.[28]

3 Constitutional Methods to Increase Durability

A key, underlying idea of our analysis is that rules, in this case in the form of constitutions, matter for human behavior. As Buchanan (2000) argues,

> Constitutional rules have the effect of increasing the costs of taking certain actions. It is more costly to take action in violation of a rule than it is to take the same action in the absence of the rule. If this much be acknowledged, then rules must matter if the basic law of economics is accepted. An increase in the cost of any choice alternative will reduce the resort to that alternative. (p. 14)

Or, to quote Hayek (1960),

> A legislature, like an individual, will be more reluctant to take certain measures for an important immediate aim if this requires the explicit repudiation of principles formally announced. (p. 179)

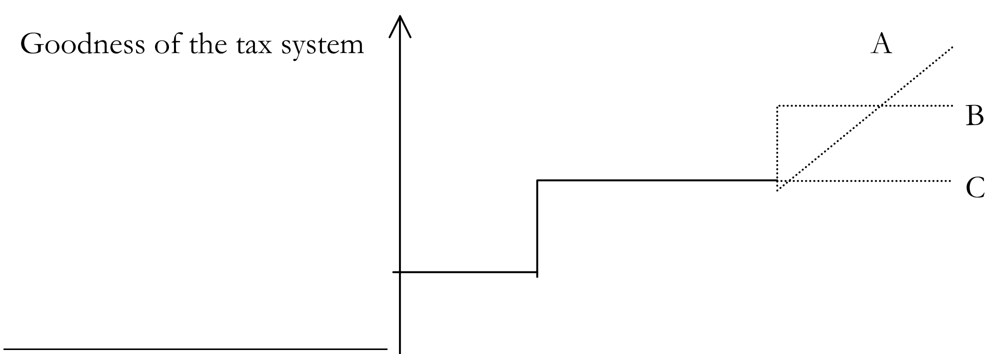
[28] Cf. Brennan and Buchanan (1988).

If we accept this view, and there are both theoretical and empirical arguments to the effect that we should,[29] the question is how the reform of rules can be used to make bad economic decisions less probable. More on this shortly; but first a statement of the analytical problem at hand.

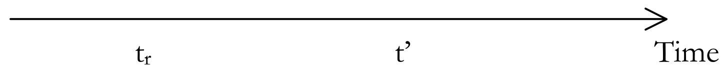
3.1 The Analytical Problem

It is useful to differentiate between different sorts of policy changes – especially with regard to their goodness or badness. As is clear from the preceding sections, this paper looks at good reforms that are nevertheless abandoned subsequently without there being factual bases for the changes. The challenge, given our understanding of the possible factors behind this kind of demise of good policies, is one of trying to construct rules for the political game that make it probable that political action is not going to reduce the satisfaction of the public interest, e.g., through a reduction of the goodness of the tax system. This desirable setting is illustrated in Figure 2, where t_r denotes the time of reform and where t' denotes the time when the tax system is, hopefully, improved further, in the form of a new, good reform (B) or gradually (A). In any case, at t', no deterioration of the goodness of the tax system occurs; the worst scenario is to have the initial reform retained (C).

Figure 2. The constitutional challenge: continual tax-system improvements



[29] Cf. Brennan and Buchanan (1985), Berggren and Kurrild-Klitgaard (2000), and Lane and Ersson (2000, ch. 15).



Now, if it is not possible to have constitutional rules that make it probable that only good policy actions are taken – and practical experience suggests that this is, indeed, the case – then one must choose rather crudely between unbridled discretion and a model with a division of power and constraints on political decision-making that introduce tardiness and limitations into the system as a whole. The challenge thus becomes one of deciding which of these alternatives, or some combination thereof, is better, *on net*.

In other words: Should decision-makers be allowed, at any time, to make any decision a simple majority of them wishes – i.e., should we have a system with great discretionary power of action for politicians – or should decision-makers be constrained in some way or other, to prevent undesirable outcomes from being realized (even at the risk of thereby sometimes preventing good actions from being taken)? One's opinion depends on several factors, such as how one understands the motivation and information of different decision-makers, how one understands the relationships between various economic variables, how one understands the effects of various policy measures and regimes, and one's values.

The general argument for rules or norms in economic policy begins with some normative goal and hinges on an interpretation of reality such that this goal is thought best obtained by means of constraining policies in a certain area. Central interpretations of reality underlying this view are incomplete information (for politicians and/or voters), decision-makers being motivated by goals not in line with the public interest, and the presence of problem of establishing credibility for some economic policy.

The general argument for discretionary power in economic policy likewise begins with some normative goal: if it is the same as for the person advocating rules, then the conflict stems from a different understanding of reality; if it is different, then the understanding of reality may be the same or differ. In any case, some important arguments against rules are external shocks (which are thought to create a need for swift, accommodating action), nominal rigidities (which, e.g., implies that supply shocks cause production and employment losses in the short run), and different informational and motivational assumptions (viewing voters and/or politicians as well informed and more altruistically inclined).

As noted, the problem is that there is no easy way, in general, not even for a given understanding of reality and for given goals, to choose a system which perfectly optimizes the level or scope of rule governance, where the optimum is defined as the level or scope which entails the highest possible satisfaction of the public interest. This difficulty derives from the great uncertainty that is involved when trying to discern the exact effects, *ceteris paribus*, of alternative sets of rules. In some circumstances, great flexibility can yield better results than relatively fixed rules, while the opposite holds in other situations. Perhaps all that can be said for a given understanding of reality and for some given values is that a certain political system is *too* plagued by rules or *too* plagued by discretion: the need for and the direction of constitutional change can be identified, but the exact version of the optimal consitution can hardly be pinned down. Various alternatives exist, as well as some knowledge about their effects, but ultimately a trial-and-error process must reveal if the final trade-off entailed an improvement or not.

3.2 Proposed Solutions

Clearly, there is no single, successful measure that could eradicate the problem of having a political process that oftentimes undermines good policies. But just the same, there *are* ways to alter how politics works, although these ways are often blunt and imperfect.[30] This section is an attempt to specify some possible avenues towards making bad political action less probable (where 'bad' is the negation of good, as defined above). But before presenting four specific proposals to this end, there will be a brief discussion of the general benefits and shortcomings of politics being constrained by institutional arrangements (as compared to politics being run in a fairly discretionary manner) – something recommended here.

Basically all political activity takes place within the confines of certain rules, be they formal or informal. As clarified by Buchanan (2000), in this sense all democrats are constitutionalists.[31] The question of how much politics should be constrained is thus a matter of degree and not of kind. It is generally impossible to measure the degree to which a political system is constrained, say, on some scalar, and for that reason (and others) it is notoriously hard to specify an 'optimal' degree of contraint.[32] But in theory, one can perhaps envisage the existence of such an optimum, which consists of a bundle of constiutional elements such that aggregate long-term preference satisfaction is

---

[30] In this regard, since rulers ultimately must bind themselves, perfectly successful commitments are not possible, but institutions can work imperfectly by introducing certain transaction costs (see, e.g., , North, 1981, and Weingast, 1995). In certain contexts, this might also be desired by the politicians themselves (in line with theory 2 above; see also Buchanan and Congleton, 1998, ch. 3, for an exposition of the logic of this idea).

[31] Cf. Lane and Ersson (2000, pp. 287-191, 293 ff.), who differentiate between *thin* and *thick constitutionalism*. The former is characterized by 'procedural ac-countability, representation and division of powers' and the latter furthermore entails 'a rigid constitution, a bill of rights and minority protection as well as judicial review.'

[32] For instance, this is difficult because there are different kinds of constraints: some are procedural, some are substantive, and the divison of power exerts yet another sort of limit on discretionary power (see Wagner and Gwartney, 1988).

at its highest. With this way of looking at it, there can be too little constraint on politics (which leads to the realization of undesirable outcomes, dictated not by long-term public-interest concerns) and there can be too much constraint on politics (which prevents desirable outcomes from being realized, e.g., in times when quick action is needed, and which may not be credible). But there can also be just the right amount of constraint. It is suggested that a political system that tends to undertake good reforms but then reneges on them after a while is too-little constrained (if it can be argued that such reneging is not the result of public-interest considerations brought about by new factual information of some sort or some rational preference change).[33]

As noted above, one's view of what constitutes the optimal degree of constraint depends not only on one's values but also on one's understanding and interpretation of reality. If one is convinced that politicians always are well-informed and servants of the public interest, then the degree of constrained thought suitable is much lower than if one is convinced that the opposite holds.[34] Of course, who is right is an empirical issue, but a difficult one to resolve. Hence differing views on how politics should be constrained is not surprising. The argument here basically rests on the latter interpretation of reality, and to the degree that one shares it, the ensuing proposals might seem attractive.

Now, in delineating a few constitutional proposals that might make a difference for the way in which politics works, it bears noting that these should each be seen as components of a comprehensive constitution, the precise mixture of which is not given *a priori* and which is probably

[33] This issue, of the degree to which politics should be constrained, is oftentimes discussed in the economic literature with regard to specific areas of economic policy, such as in the case of exchange-rate regimes or how monetary or fiscal policy should be consucted; see Blackburn and Christiansen (1989) for reviews of some of the major arguments.

[34] The usage of a completely altruistic, analytical model of politicians is viewed by Brennan and Buchanan (1980, 1984, 1988) as potentially dangerous, at least as a basis for institutional design.

quite contextually dependent. That is, one, two, or several of the proposals might be considered to be of interest, depending on the existing constitution and/or on other proposed changes of some existing constitution. Before we, with that in mind, consider four proposals for constitutional change, let us comment on what theories 1 and 2 imply respectively in terms of constraining politics.

If theory 1 holds, the problem is both general and potentially severe, since politicians solely act on the basis of their own, private interests, presumably often at odds with the public interest. This is, first of all, problematic since this produces bad outcomes, but also because the remedy is thought to be one where the rulers bind themselves to do things they otherwise would not have done. This is perhaps not very realistic, except at times of crisis, when such binding may occur. When such times occur, it is important to have developed an analysis of how the political decision-making can be reformed at the level of constitutional rules. At all times, the case for constraining politics on this this theory is strong.

If theory 2 holds, on the other hand, the problem is of a different kind in that politicians are assumed to strive for only good goals. Bad outcomes largely occur as the result of politicians being uninformed and/or influenced by the logic of the mass media, which may make certain constitutional reforms seem attractive to 'insulate' politicians from influences not conducive to making informed and beneficial descions. Here, more straightforwardly, politicians might very well want to be constrained themselves, to help them realize outcomes which they consider superior.

Now, here are four proposals that purport to make bad policy less probable and good reforms longer-lasting.[35]

Proposal 1: More divison of power

[35] Why these and not others? These were the most pertinent ones the author could think of, but surely others, possibly better, are imaginable.

One of the main ideas behind a division of power is to introduce checks against some ruler abusing his power; another is to introduce more of reflection into the political process.[36] On theory 1, where one considers politics to conform to a model of self-interest overall, and if one perceives the distribution of interests among politicians and parties to be somewhat evenly dispersed (along some relevant dimensions, such as affiliation, region, profession, etc), in the sense that these interests differ between politicians, then checks and balances might contribute to making wealth transfers from the general public to special interests less frequent. On theory 2, the problem is primarily not one of motivation but one of information, and if it is generally difficult for decision-makers to find time in the political process for contemplation and reflection, then more division of power is also beneficial. However, if these things do not generally hold for politics, then it might not be good to introduce more of counterveiling power, since its drawback is to reduce the ability for leaders to take needed action: flexibility is then curtailed unnecessarily.[37]

Proposal 2: Change of electoral system

Moberg (1999) asserts that first-past-the-post electoral systems are associated with less rent-seeking than systems with proportional representation, primarily because the former kind makes it more difficult for centralized parties to control legislators and secure wealth transfers to supporting groups. On theory 1, there seems to be scope for using this method to reduce the main reason behind

[36] For a good introduction to the subject, see Vile (1998).

[37] Generally, a fully developed system of division of power in a democratic state is characterized by an independent judiciary and judicial review, individual rights and a generality principle, federalism, a bicameral organization of the legislature, an independently elected executive and referenda.

deteriorating reforms, i.e., mutually profitable interaction between politicians and interest groups. On theory 2, it is more questionable if this is type of constitutional reform is helpful.

Proposal 3: Increased usage of qualified majorities

Buchanan and Tullock (1962) demonstrate that there is nothing inherently optimal about the simple-majority rule; rather, they assert that the decision rule for collective desions that minimizes the sum of the costs of not getting what one wants and of getting things that one does not want is preferable.[38] In the context discussed here, on theory 1, going from simple- to qualified-majority rule would make it more difficult for small majorities to exploit minorities for their own purposes, e.g., in the realm of taxation, and this plausibly improves the durability of good reforms. In fact, it would increase the durability of *any* policy, and hence makes it harder to undertake good reforms in the first place, which points at the need to clarify when and/or in what form a rule like this should be implemented. The Buchanan-Tullock analysis is helpful in this regard. Where one ends up depends on how one perceives the shapes of the two cost curves mentioned above: their joint minimum yields the optimal decision rule. Of course, it may be excessively difficult to acquire empirical knowledge of the two cost curves; rather, they may have to be assessed very roughly. In thinking about introducing some qualified-majority rule, one may then opt for some decision-rule specification that rests on some less straightforward grounds. Let us consider three alternatives in this regard.

First, it is possible to decide to introduce a qualified-majority rule only at a time when conditions or policies are favorable. That is, given a goal of efficiency, it would be unwise indeed to implement a decision rule that would make efficiency-enhancing reform more difficult to come about. But if there has been a tax reform such that the economy functions in an efficient manner, it might be beneficial to introduce a 'conserving' decision rule. This strategy has the advantage of reducing the risk for a rule of qualified majority to preserve things not desired; but it has the

[38] This largely rests on the insights of Wicksell (1896).

disadvantage of being blunt, in that conditions or policies are not uniform in their qualities. That is, even if the tax system is efficient at some point in time, this may not hold for many other areas, and so introducing a deicison rule which would retain tax efficiency would, at the same time, conserve inefficiencies elsewhere. This risk must be assessed from context to context. One way to alleviate it is explored next.

Second, one may specify certain policies or policy areas – or the domain - where a certain decision rule is applicable, while other decision rules are used in other domains. (This is akin to using a certain decision procedure for altering the constitution and another for altering lower-level laws.) For instance, one might decide to require 2/3 majorities for all tax decisions. This could be wise if the tax system is relatively efficient; otherwise one could apply the requirement only to measures which are thought to reduce efficiency (e.g., tax increases) but not to other tax measures.

Third, one could envisage the usefulness of the following rule: if a majority of x % votes in favor of proposal i, then a majority of y % is required for the proposal to be overturned at some later point in time, where $y \geq x$. The strength of such a rule is that it prevents decision-makers to deviate from good policies when the temptation to do so is great, perhaps when they think deviations helpful for increasing short-term support from interest groups and/or voters. The problem, as before, is that this rule introduces a risk that bad decisions will be conserved. Again, whether one thinks it good largely depends on whether one thinks the main problem of the political system of decision-making one of good decisions being overturned or of bad decisions not being overturned.

So far, the reasoning about proposal 3 has proceeded on theory 1: a motivation problem is seen to be at the forefront of economic-policy-making, which perhaps provides a rationale for the proposed rules above. On theory 2, the problem is partly one of motivation, in that politicians may be induced to act such that efficiency-enhancing policies are replaced because of the pressures of political compeition in a media-dominated context. If so, the same rules could be beneficial. Also, on theory 2, if the problem behind the abandoning of good policies is a lack of information, there is scope for learning, and it might then be a good thing to prevent too rash policy changes.

Proposal 4: The generality principle

Lastly, Buchanan and Congleton (1998) have advanced the idea that politics run by a simple-majority rule needs to be further constrained, more specifically by the generality principle, which states that all citizens are to be treated equally *qua* citizens and that all discriminatory legislation is to be prohibited on the constitutional level.[39] Such a constraint affects the *type* of decisions that are permissible, and in particular, policies that benefit one group more than others cannot be implemented. On theory 1, politics is run by interest-group considerations – highly nongeneral – and a generality principle would hence transorm the political game at its core and prohibit measures undermining a general (and relatively efficient) tax system, to take one example. On theory 2, a generality principle could help politicians resist pressures, exacerbated by the media, to undertake efficiency-reducing policies. On the negative side, generality implies a reduced ability to focus efforts in specific areas, such as targeting high-growth industries or low-income areas with favourable conditions.

4 CONCLUDING REMARKS

One's values and one's understanding of reality determine one's form of constitutionalism (which entails the degree to which and the forms in which politics is constrained). Given the value that economic efficiency is desirable (for a given equity goal) and given that politicians are interested in furthering their own, private goals and/or that politicians are pressured to act short-sightedly in a hectic media climate, it seems reasonable to favor certain constraints on political decision-making. In particular, the problem of having good economic reforms undermined has been addressed here, and four proposals for constitutional change, with the purpose of making bad policies less probable, have been presented.

Two theories have been outlined to explain how decision-makers come to abandon certain key elements of good reforms: (i) as the result of politicians handing out favors to special interests that are not beneficial for the citizenry at large (theory 1); and/or (ii) because the politicians are not well-informed and mistakenly think that a certain action is beneficial for the citizenry at large (theory 2a); and/or (iii) because the politicians feel forced to implement certain policies in order for them to be supported which, in turn, is necessary for them to be able to implement their favored policies, beneficial for the citizenry at large (theory 2b). Either of these situations implies that the public interest is not being served by the policy actions undertaken.

One possible solution to this problem of finding a balance between preventing bad decision-making and enabling changes in decision-making over time is to take a broader perspective. Constitutional analysis is oftentimes mistakenly conducted in too narrow a manner, without taking into account how the whole constitutional system, with a number of components, functions. Hence, a 'composite' constitutional argument is needed. And if it is the case that good reforms are generally undermined in a certain system, then further constraints relevant for the types of reforms concerned might be called for – whilst some other constitutional reform might make it possible to retain a possibility for politicians to act swiftly in other cases and situations. More of this needs to be worked out.

---

[39] For a utilitarian defense of this principle, see Berggren (1999).

Lastly, it is interesting to note that both theories presented yield a rationale for (somewhat constantive) constraints on political decision-making, not only, albeit foremost, the public-choice theory of politics but also the theory that assumes politicians to be altruistically inclined. Reality is probably a mixture of the two theories, and perhaps others, but in any case, the public interest is probably well served by some constitutional engineering.[40]

REFERENCES

Aaron, H. J. and Galper, H. (1985). *Assessing Tax Reform*. Washington, D.C.: The Brookings Institution.

Almond, B. (1993). 'Rights,' in Singer, P. (Ed.), *A Companion to Ethics*. Oxford: Blackwell.

Anderson, R. D., Jr. (1999). 'The Place of the Media in Popular Democracy.' Critical Review, 12(4): 481-500.

Arrow, K. J. (1951). *Social Choice and Individual Values*. New York: Wiley.

Becker, G. S. (1983). 'A Theory of Competition Among Pressure Groups for Political Influence.' *Quarterly Journal of Economics*, 97: 371-400.

Berggren, N. (1995). 'The Political Economy of the Swedish Tax Reform of 1990.' Unpublished manuscript, Department of Economics, Stockholm School of Economics.

Berggren, N. (1999). 'A Preference-Utilitarian Foundation of the Generality Principle.' *Constitutional Political Economy*, 10(4): 327-341.

Berggren, N., Karlson, N., and Nergelius, J. (Eds.) (2000). *Why Constitutions Matter*. Stockholm: City University Press.

Bergström, H. (1994). 'Medierna, valrörelsen och samhällsförståelsen.' Report No. 14. Stockholm: Näringslivets MediaInstitut.

Bergström, H. (1998). 'Vilka tankemodeller styr media?'. In Hellman, J. and Eiken, O. (Eds.), *Skildrar media verkligheten?* Stockholm: Näringslivets MediaInstitut.

[40] On this term, see Karlson (1993, p. 204).

Blackburn, K. and Christensen, M. (1989). 'Monetary Policy and Policy Credibility: Theories and Evidence.' *Journal of Economic Literature*, 27: 1-45.

Brennan, G. and Buchanan, J. M. (1980). *The Power to Tax: Analytical Foundations of a Fiscal Constitution*. Cambridge: Cambridge University Press.

Brennan, G. and Buchanan, J. M. (1984). 'The Normative Purpose of Economic "Science": Rediscovery of an Eighteenth-Century Method.' In Buchanan, J. M. and Tollison, R. D. (Eds.), *Theory of Public Choice-II*. Ann Arbor: The University of Michigan Press.

Brennan, G. and Buchanan, J. M. (1985). *The Reason of Rules: Constitutional Political Economy*. Cambridge: Cambridge University Press.

Brennan, G. and Buchanan, J. M. (1988). 'Is Public Choice Immoral? The Case for the "Nobel" Lie.' *Virginia Law Review*, 74: 170-189.

Brennan, G. and Hamlin, A. (2000). *Democratic Devices and Desires*. Cambridge: Cambridge University Press.

Brennan, G. and Kliemt, H. (1990). 'Logo Logic.' *Constitutional Political Economy*, 1(1): 125-127.

Buchanan, J. M. (1954). 'Social Choice, Democracy, and Free Markets.' *Journal of Political Economy*, 62: 114-123.

Buchanan, J. M. (1959). 'Positive Economics, Welfare Economics, and Political Economy.' *Journal of Law and Economics*, 2: 124-138.

Buchanan, J. M. (1967). *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice*. Chapel Hill: University of North Carolina Press.

Buchanan, J. M. (1975). *The Limits of Liberty: Between Anarchy and Leviathan*. Chicago: University of Chicago Press.

Buchanan, J. M. (1980). 'Reform in the Rent-Seeking Society.' In Buchanan, J. M., Tollison, R. D. and Tullock, G. (Eds.), *Towards a Theory of the Rent-Seeking Society*. College Station: Texas AandM University Press.

Buchanan, J. M. (1987). 'Tax Reform as Political Choice.' *Journal of Economic Perspectives*, 1: 29-35.

Buchanan, J. M. (2000). 'Why Do Constitutions Matter?' In Berggren, N. *et al*.

Buchanan, J. M. and Congleton, R. D. (1998). *Politics by Principle, Not Interest: Toward Nondiscriminatory Democracy*. Cambridge: Cambridge University Press.

Buchanan, J. M. and Tullock, G. (1962). *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor: The University of Michigan Press.

Cooter, R. D. (2000). *The Strategic Constitution*. Princeton: Princeton University Press.

Davis. R. (Ed.) (1998). *Politics and the Media*. New York: Prentice Hall.

DiLorenzo, T. J. (1985), 'The Rhetoric and Reality of Tax Reform.' *Cato Journal*, 5: 401-406.

Dougan, W. R. and Munger, M. C. (1989). 'The Rationality of Ideology.' *Journal of Law and Economics*, 32: 119-142.

Dworkin, R. (1977). *Taking Rights Seriously*. London: Duckworth.

Entman, R. M. (1990). *Democracy without Citizens: Media and the Decay of American Politics*. Oxford Oxford University Press.

Goff, B. and Tollison, R. D. (1990). 'Why Is the Media so Liberal?' *Journal of Public Finance and Public Choice*, 1: 13-21.

Haggard, S. and Webb, S. B. (1993). 'What Do We Know about the Political Economy of Economic Policy Reform?' *The World Bank Research Observer*, 8(2): 143-168.

Hare, R. M. (1981). *Moral Thinking: Its Level, Method and Point.* Oxford: Clarendon Press.

Hayek, F. A. (1960). *The Constitution of Liberty*. Chicago: University of Chicago Press.

Hazlitt, H. (1979). *Economics in One Lesson*. Westport: Arlington House.

Hettich, W. and Winer, S. L. (1985). 'Blueprints and Pathways: The Shifting Foundations of Tax Reform.' *National Tax Journal*, 38: 423-446.

Hettich, W. and Winer, S. L. (1988). 'Economic and Political Foundations of Tax Structure.' *American Economic Review*, 78: 701-712.

Ikeda, S. (1997). 'How Compatible Are Public Choice and Austrian Political Economy? Tales of Deception and Error.' Unpublished manuscript presented at the 1997 meetings of the Southern Economic Association.

Jonung, L. (1999). *Med backspegeln som kompass: om stabiliseringspolitiken som läroprocess. [Looking Ahead through the Rear-View Mirror: Swedish Stabilisation Policy 1975-1995]*. Stockholm: Fakta Info Direkt.

Kahan, M. (1998). *Media as Politics : Theory, Behavior, and Change in America*. New York: Prentice Hall

Kalt, J. P. and Zupan, M. A. (1984). 'Capture and Ideology in the Economic Theory of Politics.' *American Economic Review*, 74: 279-300.

Kalt, J. P. and Zupan, M. A. (1990). 'The Apparent Ideological Behavior of Legislators.' *Journal of Law and Economics*, 80: 103-131.

Karlson, N. (1993). *The State of State: An Inquiry Concerning the Role of Invisible Hands in Politics and Civil Society*. Stockholm: Almqvist & Wicksell International.

Kau, J. B. and Rubin, P. H. (1979). 'Self-Interest, Ideology, and Logrolling in Congressional Voting.' *Journal of Law and Economics*, 22: 365-384.

Keeler, T. E. (1984). 'Theories of Regulation and the Deregulation Movement.' *Public Choice*, 44: 103-145.

Klein, D. B. (1994). 'If Government Is So Villainous, How Come Government Officials Don't Seem Like Villains?' *Economics and Philosophy*, 10: 91-106.

Lane, J.-E. and Ersson, S. (2000). *The New Institutional Politics: Performance and Outcomes*. London: Routledge.

Lee, D. R. and Tollison, R. D. (1988). 'Optimal Taxation in a Rent-Seeking Environment.' In Rowley, C. K., Tollison, R. D., and Tullock, G. (Eds.), *The Political Economy of Rent Seeking*. Boston: Kluwer.

McCaleb, T. S. (1985). 'Public Choice Perspectives on the Flat Tax Follies.' *Cato Journal*, 5: 613-624.

McChesney, F. S. (1988). 'The Cinderella School of Tax Reform: A Comment on Rabushka.' *Contemporary Policy Issues*, 6: 65-69.

McCormick, R. E. and Tollison, R. D. (1981). *Politicians, Legislation, and the Economy*. Boston: Martinus Nijhoff.

Moberg, E. (1999). *Democracy: Constitutions, Politics and Decisions*. Unpublished book manuscript.

Mueller, D. C. (1989). *Public Choice II*. Cambridge: Cambridge University Press.

Myhrman, J. (1994). *Hur Sverige blev rikt [How Sweden Grew Rich]*. Stockholm: SNS Förlag.

North, D. C. (1981). *Structure and Change in Economic History*. New York: Norton.

North, D. C. (1991). 'Towards a Theory of Institutional Change.' *Quarterly Review of Economics and Business,* 31(4): 3-11.

Nozick, R. (1974*). Anarchy, State, and Utopia*. New York: Basic Books.

Payne, J. L. (1991). *The Culture of Spending: Why Congress Lives Beyond Our Means*. San Francisco: ICS Press.

Peltzman, S. (1976). 'Toward a More General Theory of Regulation.' *Journal of Law and Economics*, 19: 211-240.

Peltzman, S. (1984). 'Constituent Interest and Congressional Voting.' *Journal of Law and Economics*, 27: 181-210.

Peters, B. G. (1991). *The Politics of Taxation*. Oxford: Blackwell.

Posner, Richard A. (1987). The Constitution as an Economic Document, *George Washington Law Review*. 56(1): 4-38.

Potters J. and Sloof, R. (1996). 'Interest Groups: A Survey of Empirical Models that Try to Assess Their Influence.' *European Journal of Political Economy*, 12(3): 403-442.

Rawls, J. (1971). *A Theory of Justice*. Cambridge: Belknap Press.

Rodrik, D. (1993). 'The Positive Economics of Policy Reform.' *American Economic Review,* 83(2): 356- 361.

Sandford, C. (1993). *Successful Tax Reform: Lessons from an Analysis of Tax Reform in Six Countries*. Bath: Fiscal Publications.

Sen, A. (1987). *On Ethics and Economics*. Oxford: Blackwell.

Spindler, Z. and Walker, M. (1988). 'Canadian Tax Reform as Public Choice.' *Contemporary Policy Issues*, 6: 70-84.

Stigler, G. J. (1971). 'The Theory of Economic Regulation.' *Bell Journal of Economics*, 2: 3-21.

Stigler, G. J. (1982). *The Economist as Preacher, and Other Essays*. Chicago: University of Chicago Press.

Sutter, D. (2001). 'Can the Media Be so Liberal? The Economics of Media Bias.' *Cato Journal*, 20(3): 431-451.

Swanson, D. L. and Mancini, P. (Eds.) (1996). *Politics, Media, and Modern Democracy.* Westport: Praeger.

Vanssay, X. de and Spindler, Z. A. (1994). 'Is Tax Reform in the Public Interest? A Rent-Seeking Perspective.' *Public Finance Quarterly*, 22: 3-21.

Velthoven, B. van and Winden, F. van (1991). 'A Positive Model of Tax Reform.' *Public Choice*, 72: 61-86.

Vile, M. J. (1998). *Constitutionalism and the Separation of Powers.* Indianapolis: Liberty Press.

Voigt, S. (1999). 'Implicit Constitutional Change: Changing the Meaning of the Constitution without Changing the Text of the Document.' *European Journal of Law and Economics,* 7(3): 117-144.

Wagner, R. E. (1985). 'Normative and Positive Foundations of Tax Reform.' *Cato Journal*, 5: 385-399.

Wagner, R. E. and Gwartney, J. E. (1988). *Public Choice and Constitutional Economics.* Greenwich: JAI.

Wallis, J. J. (1989). 'Towards a Positive Economic Theory of Institutional Change.' *Journal of Institutional and Theoretical Economics,* 145(1): 98-112.

Weingast, B. R. (1995). 'The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Growth.' *Journal of Law, Economics, and Organization*, 11(1): 1-32.

Wärneryd, K. (1994). 'Partisanship as Information.' *Public Choice*, 80: 371-380.

Whalley, J. (1990). 'Foreign Responses to U.S. Tax Reform.' In Slemrod, J. (Ed.), *Do Taxes Matter?* Cambridge: The MIT Press.

Witt, U. (1992). 'The Endogenous Public Choice Theorist.' *Public Choice,* 73: 117-129.