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BOOK REVIEW

Scott Gehlbach: Representation Through Taxation: Revenue, Politics, and Development in Postcommunist States

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It's a very good sign when an author describes his work as in the tradition of what Joseph Schumpeter called "fiscal sociology." I was therefore pleased to see Scott Gehlbach characterize his new book, *Representation Through Taxation*, this way. Richard Wagner's book, *Fiscal Sociology and the Theory of Public Finance*, is one excellent, recent example of political economy in this vein. Gehlbach's book is another.

The central thesis of *Representation Through Taxation* is simple: When differences in taxability across economic sectors are large and tax revenue is politically important, politicians' decisions about which sectors to support depend largely on which sectors are easiest to tax. The intuition behind this thesis derives from a familiar framework: politicians and industries seek to exploit mutually beneficial exchange opportunities. If politicians channel more public money to certain industries, these industries benefit. In payment for such support, benefited industries pay taxes, contributing to politicians' coffers.

However, not all industries may be able to commit to hold up their end of the bargain with the same degree of credibility. If, because of a particular industry's size, structure, or other features, the firms in this industry can easily evade taxes, politicians will earn a low return on public investments they make here. Conversely, if the features of some other industry make it hard for its firms to evade taxes, politicians will earn a higher return on public investments they make here. When some sectors are easier to tax than others, politicians therefore provide more support to sectors they find easier to tax and less support to sectors they find harder to tax.

Notably, sectors that are easier to tax need not be, and in general will not be, those which, from the perspective of economic development, are the most sensible for government to support. Further, in funneling public resources to easy-to-tax industries, a perverse reinforcement effect emerges whereby government becomes dependent on the easy-to-tax industry as its source of revenue while the easy-to-tax industry becomes dependent on gov-

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ernment for its continued existence. Thus in Gehlbach we find a novel source for a familiar government failure.

The author's logic does not so much "depart in important ways from what has become conventional wisdom in political economy," namely Mancur Olson's idea that better organized groups will receive more attention from politicians than less well-organized groups, as Gehlbach at one point suggests (p. 4). Rather, it circumscribes the decisiveness of the influences Olson describes to particular circumstances—i.e., when differences in taxability across economic sectors are small and/or tax revenue is not especially politically important. Most important, it highlights the decisiveness of a different influence on political allocation decisions—the ease of an industry's taxability—when these conditions are not met.

Gehlbach develops this idea and its implications in the context of the transition economies of the postcommunist states. His analysis aims to answer three questions: 1. What explains variation in the tax systems that evolved in the postcommunist states after communism? 2. Who did postcommunist politicians favor in the provision of collective goods and why? 3. What are the consequences of variation in collective-goods provision for economic development in postcommunist states?

In answer to question 1, Gehlbach argues that three features—the former Soviet states' inheritance of an industrial structure based on large manufacturing enterprises from communism, greater distance from West, and lower economic development—led to their reliance on enterprise taxation and a system of indirect taxes in the postcommunist period. In contrast, in the states of Eastern Europe, which did not inherit an industrial structure based so heavily on large manufacturing enterprises, were closer to the West, and were wealthier, it was possible to develop a tax system based on the direct taxation of individuals after communism collapsed. In short, while conditions in the former Soviet Union encouraged the creation of a tax system that generates revenue from "old" economic sources, conditions in Eastern Europe encouraged the creation of a tax system that generates revenue from "new" economic sources, namely emerging small businesses.

It's only a short jump from here to Gehlbach's answer to question 2 about who postcommunist politicians favored and why. In the former Soviet Union, postcommunist politicians favored industries that were comparatively easy for them to tax—namely, large, monopolistic firms they were familiar with and provided revenue for them under communism. In Eastern Europe, in contrast, because the postcommunist tax system was broad based and built to collect revenue from new economic sources such as small businesses, variation in the taxability of different sectors was smaller. Thus in Eastern Europe more traditional Oslon-esque features, which played only a subsidiary role in the former Soviet Union, played the decisive role in determining which producers received government's support.

In answer to his final question—What are the consequences of variation in collective-good provision for economic development in postcommunist states?—Gehlbach points to what should now be an obvious conclusion: Because of the relative ease of taxing old forms of economic activity in the former Soviet Union, here, politicians' incentive is to promote the growth of these activities rather new private ones, leading to stagnation. In contrast, because differences in taxability across sectors are much smaller in Eastern Europe, here, politicians face no such incentive, allowing new private economic activity to take off.

I have but one nit to pick with what I consider to be an otherwise excellent book. This is Gehlbach's failure to link his discussion back to—or indeed even to provide a single reference to—what is in my mind the clearly related work of Jim Buchanan and Gordon Tullock. An important part of these authors' work highlights the importance of constraining politicians' authority at the constitutional level, and providing constitutional rules for generality, precisely to prevent the kind of selective bestowal of state support that makes the pattern of political economy Gehlbach describes in the countries of the former Soviet Union possible. I think Gehlbach's book would have benefited significantly by considering this work. Then again, as a George Mason economist, I think this is true of basically every book.

Despite this potential shortcoming, *Representation Through Taxation* is a welcome contribution to political economy and discussions of fiscal sociology in particular. It's well written, well researched, and well argued, and provides some especially interesting thoughts for those interested in the crossroads of transition economics and public choice.