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BOOK REVIEW

LORRAINE EDEN (ed.), *Retrospectives on Public Finance*, Duke University Press, Durham and London 1991. pp. 409+viii, $ 55.

Tax reforms and the design of desirable structure of government spending are important issues in all economies. With the aging of the population, especially as evidenced in the Japanese society, these issues are undergoing drastic changes. The field of public finance has therefore become broader and a clearer understanding of the relationships between theory and practice of public finance is required by economists interested in applying public finance theories to economic management and administration.

The purpose of *Retrospectives on Public Finance* is to bridge this gap from the view point of the 'political economy' school. The book contains the edited proceedings of a conference held at Carleton University, Ottawa, Ontario, Canada, in May 1989, in honor of Carl Sumner Shoup, McVikar Professor of Political Economy Emeritus at Columbia University. Although the conference was not formally in honor of Richard A. Musgrave, considering the similarities in his and Shoup's approaches to public finance, it is evident that the book commemorates these two classics of the political economy school.

The book marks the twentieth anniversary of Shoup's 1969 major treatise, *Public Finance* (Chicago: Aldine Publishing) and the thirtieth anniversary of Musgrave's 1959 treatise *The Theory of Public Finance: A Study in Political Economy* (New York: McGraw-Hill).

The contents of the book influences the trends of public finance theories today and makes clear that the origins of these trends are found in Shoup's essays. They include both the tax missions and the idea of VAT and tax agreement in international economics. One other feature of the book is to stress on the development of local public finance theories which include the studies of property tax, merit wants and fiscal coordination. Furthermore, fiscal coordination is discussed in connection with tax harmonization between nations. This implies that macroeconomic approach of public finance has changed to be related with several aspects of local public finance theory. In addition, its central issue shifts from stabilization policy to management of social security and public debt.

The book is divided into six parts, consisting of seventeen chapters. Part 1 is a general introduction of the papers presented. Parts 2 to 5 deal with the assessment of the Shoup tax missions, the controversy of tax systems, government expenditure concerning local public finance, and macroeconomic public finance. And in the last chapter Richard Musgrave offers his view of the history of public finance from the 1930s through today.

The first paper of Part 2 is written by Carl Shoup. He presents the following three notions: tax architectuer is the choice of taxes to form a country's revenue base and the outlining of the features of each tax; tax engineering is the practical decision of tax engineer about the issues concerning each tax; tax administration is the way of implementing the provisions in the tax law. Using these notions, he concludes that while a tax mission should allocate its resources between tax architecture, engineering, and administration, tax architecture should be the essential task for tax missions. Malcolm Gill's paper analyses the historical features of the Shoup Missions compared with the theory of public finance. He points out that the Shoup mission to Japan was the first mission where public finance academics applied theory to the practical problems of reforming an entite tax system. The influence of Shoup's mission on Tax reforms in Japan and Venezuela are discussed by Minoru Nakazato and Charles McLure, respectively. While Nakazato notes that the report has influenced Japanese Tax policy for nearly forty years, McLure argues that in Venezuela the report has had little impact because of the lack of political will to introduce reforms.

Part 3 looks at the personal and corporate income taxes, the value added tax and the role of the property tax in the fiscal system. Using Carl Shoup's taxonomy of consensus and conflict criteria, Richard Goode's paper describes changing views of the proper form and role of the personal income tax in the economy. He compares the personal income tax to the expenditure tax in terms of the consensus criteria and argues that the income tax is still superior. William Vickery's paper deals with difficulties in the corporate income tax in the U.S. He points out that the tax increases the cost of equity capital for firms, depresses business investment, and that the foreign tax credit mechanism creates an incentive for other nations to adopt similar taxes in order to take advantage of the credit. He suggests that the tax should be returned to its pre-1936 structure. Wayne Thirsk's paper identifies Carl Shoup as the intellectual father of the value added tax (VAT) and his contributions to growth and application of the tax.

Although John Graham's paper is included in Part 3, it treats the revenue of local punlic finance. Since Part 4 deals with several issues concerning local public finance, for example, local public goods, excludable public goods, and merit wants, Graham's paper should be grouped into Part 4 to make clear the relationships between revenue and expenditure of local public finance. His paper develops an analytical framework for establishing an efficient and equitable system of local public finance, taking into account property taxes and the nature of municipal services. Discussing the old and new views of incidence of the property tax, he sees the tax as a tax on the value of the service rendered by property to the owner/tenant. Lorraine Eden and Melville Macmillan's paper identifies four key issues on local public goods around which Shoup's work has centered: (1) the characteristics of public services, (2) the definition and measurement of output, (3) the determination of cost functions for level of services, population, and area of the jurisdiction, and (4) the distribution and incidence of the benefits from local public goods. Cliff Walsh's paper deals with market provision of price-excludable public goods. Forcusing on jointness of the key characteristics of such commodities, he concludes that market provision may not be superior to government provision for this class of commodities. John Head's paper analyses merit goods of which supply is justified by social wants or merit wants. Although social wants have dominated work in the public finance, he proposes the analytical framework which makes the scope of merit wants fully comparable to the scope of social wants.

Part 5 deals with impacts of the tax structure on expenditure growth, international public finance issues, compensatory fiscal policy, and social security and public debt. Richard Bird's paper argues that tax structures and the size of the government are linked through five factors: the tax structure is quasi-constitutional in nature, an important political symbol, linked to expenditure structure and the growth of government spending and changes due primarily to exogenous shocks. Peggy Musgrave's chapter examines the roles played by fiscal coordination and competition when goods, labor, and capital can move across jurisdictions. She notes that jurisdictions can be regarded as local governments, nations, or coalitions of them and that, in this respect, macroeconomic public finance in world economy is related with the analytical framework of local public finance. She focuses on two approaches. The first approach, associated with Shoup and the European Community, recommends coordination of fiscal systems where individual countries implement their own tax structure while using harmonization to neutralize fiscal differentials between countries. The second approach argues that tax competition can promote efficiency and responsiveness of the government.

Douglas Auld's paper assesses the changes in the economic professions' views about fiscal policy since 1960. He mentions the contributions of Carl Shoup's and Richard Musgrave's treatises to this area and identifies seven key theoretical developments which have affected the professions' assessment: rational expectations, supply-side economics, the Laffer curve, tax-push inflation, Ricardian equivalence theory, crowding out, and the natural rate of unemployment. He concludes that compensatory fiscal policy is unlikely to play a major role in counter-cyclical policy today due to high budget deficit and debt levels. John Burbridge's paper questions the plausibility of the reigning view of the social security and debt compared with the approach of the 'political economy' school, especially Shoup's views in his 1969 book. He notes that the former is based on the Samuel son-Diamond life-cycle growth model. He examines the assumptions of the model and concludes that economic analyses in this field have to be done in order to take note of the ideas questioned by previous generations and also relate it to empirical evidence.

Thus *Retrospectives on Public Finance* seeks to answer the problems which occur in the application of public finance theories to economic management and administration in the context of "learning anew from the classics." When readers find that all of these studies are based on the examination of difficulties in public finance and the solutions to them in countries analysed by the various authors, they would not deny that the purpose of the book has been accomplished. And since the range of topics covered in the book is very broad, it should be useful for economists of every field of public finance.

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