Wildavsky has some nostalgia for the "Old" *Politics*, but he recognizes that the current budget process is more complex and more frustrating primarily because the federal government is now more complex in ways that are not supported by a broad consensus. In contrast to those who propose "rationalist" reforms of the budget process, Wildavsky would not replace the politics of the budget process but would change the institutions and rules by which politics leads to agreement.

The *New Politics* is more complex and more difficult than the "Old" *Politics*, but that is because the world has changed. For those who want to understand the new politics of the budgetary process, however, Wildavsky's *New Politics* will be the definitive guide, both to the expected budget outcomes and the potential for improving this process.

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World Tax Reform: A Progress Report
Joseph A. Pechman, ed.
Washington, D.C.: Brookings Institution, 1988, 249 pp.

Tax policy is seemingly forever and everywhere in flux. Recent U.S. tax reforms have been part of, and have given further impetus to, an unusually active wave of international reform efforts. Joseph Pechman's *World Tax Reform* offers a useful country-by-country guide to the state of national tax systems and reform efforts.

The strength of this volume is that each of the contributing authors is well qualified to report on the status of his assigned country's tax reform efforts. Each country's report is well written, providing enough statistics to explain without overwhelming, and each report is accompanied by a discussant's paper providing another viewpoint. For a discussion of tax reform, the text is very readable overall.

The book is not without its flaws, however. Its main flaw is that it lacks balance in the range of views presented. Many of the authors have, to one degree or another, Pechman's strong preference for raising tax levels to fund social programs and for shifting the tax burden from less wealthy to more wealthy taxpayers and from labor to capital income. These are not the views that guide the current tax reform movement; they are the views that led to income tax systems badly in need of reform.

Increased social spending and the resulting increases in revenue requirements in the 1960s and 1970s led to ever-higher marginal income tax rates. Higher tax rates led to wide arrays of deductions, exemptions, and credits that reduced the growing distortions of economic decision-making created by the increases in tax rates. These tax abatements were perceived, and most often misperceived, as tax loopholes that led many taxpayers worldwide to believe their nations' tax systems were unfair and unnecessarily complicated.

The central theme of recent income tax reform has been to reduce income tax rates to create a more neutral tax code and thereby to reduce tax disincentives to work, save, and invest. Unfortunately, the resulting tax revenue losses have been offset by base broadening, that is, by repealing or reducing deductions and exemptions that frequently were useful in offsetting the income tax bias against saving and capital formation. Base broadening, therefore, offset the gains in tax neutrality from lower tax rates. The recent tax reform in the United States, for example, featured significant rate reductions and base broadening. It also shifted, virtually at random, massive tax burdens among taxpayers with no discernible net gain with respect to equity, neutrality, or simplicity.

The albatross of tax reform is the lack of generally accepted definitions for equity, neutrality, and simplicity. The lack of consensus on what is meant by tax neutrality has been particularly troublesome. For example, Pechman defines neutrality with respect to the recipient of income or economic gain, continuing a long tradition of misapplying to tax policy the Haig-Simons definition of income as net accretions to wealth. This definition appears to be employed by many of the authors in the text, including Sijbren Cnossen, who argues that neutrality is achieved when equivalent tax burdens are imposed on earnings and gains when received by an individual, and when equivalent tax burdens are imposed on earnings and gains received by similarly situated individuals.

Pechman's definition of neutrality is particularly well suited for redistributing income. It often leads, however, to very peculiar statements when tax neutrality and economic growth are at issue. For instance, Claes Ljungh, in his discussion of the Swedish tax system, argues that future tax reform "should be more favorable to savings." And yet his next sentence states, "The changes (in the tax system) should result in an increase of the revenue from capital gain and other income from capital." Capital income is the return to saving. It is a strange definition of neutrality that argues that the more you tax saving, the more taxpayers will save.

By contrast, the supply-side definition of neutrality is that a neutral tax leaves unaffected the relative prices of goods and services when compared to what these prices would be without the tax. A neutral tax, therefore, does not distort the price signals that guide economic decisionmaking and resource allocation. In contrast with Pechman's definition of neutrality, which proceeds from the perspective of the recipient of income, the supply-side definition proceeds from the perspective of the source of earnings and gains.

The supply-side definition of neutrality, unlike Pechman's definition, is well suited to guide tax reform efforts intended to minimize tax barriers to economic growth. Recent U.S. income tax reforms have relied on the supply-side definition, though they have failed to implement it consistently. Starting in 1979, the United Kingdom began a series of supply-side reforms of its tax system that removed some of the impediments to market efficiency. The continued economic expansion in both the United States and Great Britain is attributable in part to the successes achieved in applying supply-side principles to tax policy. Given the central role that supply-side principles have played in guiding many countries' tax reform efforts, one would hope that future reports on world tax reform will give the supply-side arguments greater attention.

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Liability: Perspectives and Policy
Robert Litan and Clifford Winston, eds.
Washington, D.C.: Brookings Institution, 1988, 241 pp.

One of the most persistent problems in public policy is the public's notoriously short attention span. The liability insurance crisis provides an excellent example. In 1986, the national media were filled with reports of skyrocketing liability insurance premiums forcing products off the market, driving doctors from their practices, and forcing the closure of day care centers, swimming pools, and boy scout camps. Spurred by the crisis, innumerable academics and policy experts turned their attention to exploring the causes of and devising potential solutions to the liability problem. Before much of this work could be completed, however, the problem had faded to the back pages of the newspapers and the backs of the public's minds. The liability system's problems were far from resolved, but insurance premiums had leveled off, and attention turned elsewhere.

We now are beginning to see the fruits of much of the research that was spurred by the crisis. Among these works is *Liability: Perspectives and Policy*. One hopes this book will receive serious attention by policymakers, despite the fact that the tort system is no longer the crisis of the moment. Editors Robert Litan and Clifford Winston, both senior fellows at the Brookings Institution, have gathered some of the nation's foremost experts on liability to explore the causes of and potential cures for the problems of the liability system. While the book is somewhat disappointing because of the subjects and ideas it does not adequately address, it nevertheless contains a wealth of data and insights concerning a broad range of insurance and liability issues. It should prove extremely useful to policymakers and other students of this still-important issue. Among the highlights are John Calfee and Clifford Winston on the economic efficiency of various liability rules; Scott Harrington on prices and profits in the liability insurance system; Patricia Danzon on medical malpractice; Peter Huber on environmental hazards; W. Kip Viscusi on occupational accidents and illnesses; and George Priest on product liability and the accident rate.

Calfee and Winston, after devising an economic model to measure different liability rules, find that no single rule is optimal in all circumstances.

Harrington provides a comprehensive description of the liability insurance industry and how it has functioned in recent years. He concludes