des menschlichen Zusammenlebens notwendig, des Einflusses, der Macht, der Herrschaft und schließlich : der Gewalt, — jenes schwer ergründbaren Phänomens, in dem sich im Extremfall der höchste Grad von Realität im vital-physischen Sinne mit dem höchsten Grad an Abstraktheit im sozialen Sinne verbinden kann.

Die Fragestellung, um die es hier geht, ist diejenige nach den Bedingungen der Möglichkeit menschlichen Zusammenlebens. Wie ist, um die Wendung Durkheims zu gebrauchen, die »Tatsache Gesellschaft« möglich? Wie ist es möglich, daß Menschen sich mit einiger Sicherheit und Dauerhaftigkeit aufeinander einstellen können?

Ich halte diese Frage für beantwortbar. Und zwar deshalb, weil Menschen nicht *zueinander* kommen können, ohne einen *Prozeß der Formung dieses »Zueinander«* auszulösen (10). Der Gestaltungsprozeß der Formung des Zueinander aber geht ein oder besser : geht durch Verfestigungen, Gehäuse, Kristallisationen, Institutionalisierungen hindurch. Es gibt *Bedingungen* dieser Formung des Zueinander, Konstruktionsprinzipien der »Gehäuse« des menschlichen Zusammenlebens, die wir mitsetzen und mitsetzen müssen, wenn wir dem Chaos des Beziehungslosen ein Stück Land abgewinnen. Diese Bedingungen lassen sich finden — und zwar hinter den Geläufigkeiten und Trivialitäten des Alltags, die uns den Blick auf das Unabdingbare im sozialen Leben eher zu verstellen als zu schärfen pflegen.

Gewiß kann man menschliches Zusammenleben ebenso als unvollständige »Integration« wie als unvollständige »Desintegration« beschreiben. Unsere Fragestellung unterstellt keineswegs die Existenz einer »absoluten Ordnung«, die ebenso eine Fiktion ist wie die alte Formel des Krieges aller gegen alle. Sie bezieht sich, um dies noch einmal zu verdeutlichen, auf jene Leistungen der sozialen Produktivität des Menschen, die unser Zusammenleben um einen Teilstrich über das Willkürliche, Zufällige, Unvorhersehbare erheben. Wir können nicht wissen, wo die Grenzen der Fähigkeit des Menschen liegen, sich selbst sozial zu definieren. Aber wir können, glaube ich, wissen, welche Bedingungen aller Erfahrung nach mitgesetzt werden müssen, wenn Menschen sich »sozial feststellen«.

(10) Dies ist bekanntlich der Grundgedanke der Soziologie Georg SIMMELS, dem ich mich hier auch in der Formulierung anschließe; vgl. *Soziologie*[4] (Berlin, 1958), S. 5. Über die Mißverständnisse, die mit der Abstempelung der Leistungen Simmels als spezifisch »formaler« Soziologie verbunden sind : Friedrich H. TENBRUCK, Georg Simmel, *Kölner Zeitschrift für Soziologie und Sozialpsychologie*, X (1958), 587-614.

ADAM PRZEWORSKI & MICHAEL WALLERSTEIN

Popular sovereignty, State autonomy, and private property

Introduction

THE LEGITIMACY of modern democratic institutions rests on the ideal of popular sovereignty. The purpose of this paper is to examine the contemporary status of this ideal.

Since space limitations do not permit discussion that would place the concept of popular sovereignty in its historical and intellectual context, we simply postulate a definition. People, by whom we mean individuals acting on the bases of their current preferences, are collectively sovereign if the alternatives open to them as a collectivity are constrained only by conditions independent of anyone's will. Specifically, people are sovereign to the extent that they can alter the existing institutions, including the state and property, and if they can allocate available resources to all feasible uses.

Popular sovereignty has been historically seen as vulnerable to three threats: imperfections of the democratic process, autonomy of the state, and private property (1). The argument that popular sovereignty is unfeasible, whether because of the irredeemable weakness of the people or the inherent vulnerability of democratic institutions, has constituted the conservative position since the time of the French and the American revolutions. The fear of state autonomy has a more convoluted history: originally a left-wing theme, antistatism was only recently and only in part embraced by the Right. Finally, the belief that popular sovereignty is impossible or at least gravely limited in any society in which productive resources are owned privately has been the traditional, almost defining, feature of socialist movements.

The purpose of this paper is to examine these traditional positions

(1) In fact, a fourth threat is at least equally prominent, one originating from international political and economic context. Unfortunately, we feel incompetent to discuss those potential limitations of popular sovereignty that result either from foreign political intervention or from economic dependence upon the world system.

Arch. europ. sociol., XXVII (1986), 215-259. — 0003-9756/86/0000-513 $02.50 © 1986 *A.E.S.*

in their contemporary form, specifically, to reconstruct the arguments, to analyze their logical and empirical validity, to identity issues that can be resolved, and to draw some consequences.

Two aspects of the concept of popular sovereignty should be noted immediately. It is now well established that no voting procedure will in general produce a transitive ordering of collective preferences. Hence, no outcome of voting can be considered with any confidence as a unique popular mandate. Collective choices made by rational individuals at a particular time through any voting procedure are unstable in the sense that the same individual preferences may generate a different—in fact in the absence of institutional constraints (about which Shepsle 1979*a*), any—collective choice (McKelvey 1976; Schofield 1978). Thus, at least in one interpretation (see in particular Riker 1982), the effect of Arrow's (1951) theorem and the subsequent developments was to break the eighteenth century connection between popular sovereignty and collective rationality, understood as transitivity of collective preferences.

This interpretation is much too strong, insofar as it accepts too readily the assumption of fixed exogeneous individual preferences. Viewed from the perspective of neo-classical economics, the political process consists only of revealing and aggregating exogenously formed individual preferences. This may or may not be an accurate description of contemporary politics but arguments derived from this assumption do not suffice as a critique of the concept of popular sovereignty as it was elaborated during the eighteenth century and eventually used to provide the ideological foundations for the modern democratic institutions. Whether in Rousseau's conception of general will (Keohane 1980, Chapter 15) or the American revolutionary thought between 1776 and 1787 (Wood 1969), individual preferences were thought to be transformed in the pursuit of common interests. And the common interest was not the sum of whatever interests individuals would have pursued prior to the political experience, for politics, as Wood put it, 'was conceived to be not the reconciling but the transcending of the different interests of the society in the search for the single common good [...]' (1969: 57-58). Intransitivity of collective preferences would furnish a devastating critique of 'populist' conceptions of democracy if it were shown either that citizens are in fact not 'virtuous', that is, they are unwilling to modify preferences when faced with the knowledge of the resulting collective irrationalities, or that intransitivities continue to occur even if citizens are full of republican virtue. Either of these assertions may be true but thus far they have not been shown to be. In spite of Riker's

(1982) premature closure, the full implications of Arrow's theorem for the ideal of popular sovereignty are yet to be explored. (Note that there are also differences of opinion whether the non-existence of an equilibrium necessarily means that democratic politics is irrational. See Miller 1983, Schofield 1978, for dissenting views).

Arrow's theorem undermines not only the ideological basis of the notion of popular sovereignty but also the intellectual validity of all theories that explain government activity in terms of preferences of individuals and/or groups. Once individual preferences are taken as fixed, the only way to avoid the implications of the general impossibility theorem is to study collective choices one at a time, each with regard to a single dimension. This is the procedure underlying various demand-side theories of the state, including neo-liberal analyses that compare the efficiency of the market and the political institutions in allocating resources. This is also the procedure adopted here. The central question of the examination that follows is whether people can be collectively sovereign in the presence of specialized institutions that comprise the state and of private property of productive resources. If the very existence of the state and/or private property is sufficient to prevent the people from being able to alter existing institutions or to allocate available resources, then the impossibility of generating a unique collective preference loses much of its interest, at least under the present historical conditions. If, in turn, neither state autonomy nor private property are tightly constraining, then the problem of social choice can be indeed regarded as central. This is why the procedure adopted here is to suspend the problem of social choice and to study other sources of potential threat to popular sovereignty (2).

Moreover, the criterion of sovereignty implied by our definition should not be confused with preferences revealed through the voting process. In a society in which investment decisions are a private prerogative of owners of capital or in which the bureaucracy is not a perfect agent of the electorate, rational well-informed citizens would anticipate the effects of private property and of state autonomy in their voting calculus. If citizens know that a transfer of income from profits to health care would result in a fall of investment and a net decline in potential output, they may vote against such a transfer. They may also vote against health care if they fear an overgrown

(2) The problem of social choice and the question of state autonomy are not, however, perfectly separable, insofar as the instability of the collective choice is a source of power of agenda setters. For this connection and a review of the literature see Riker (1982, chapter 7).

bureaucracy. To the extent to which the deadweight loss involved in income transfers is a consequence of the response of investors to increased taxes, that is, to the extent it results from private property of capital, it constitutes a limitation of popular sovereignty. To the extent to which citizens are dissuaded from establishing a health care system by the fear of state autonomy, their sovereignty is again limited. Hence popular preferences cannot be read directly from election results. The criterion of popular sovereignty that serves as our analytical instrument must be counterfactual: it is the collective choice that would result from individual preferences if the democratic process was perfect, if the state was a perfect agent of the people, and if private ownership of wealth did not restrict collectively preferred allocations of resources. The analytical procedure is to take sovereignty in its strongest form and to examine, one at a time, to what extent it is limited by particular constraints.

Section I discusses democracy and some of its imperfections. Section II reviews arguments which locale the threat to popular sovereignty in state autonomy. To provide instruments of analysis we first develop a general theory of pure forms of state. The purpose of this theory is to pose the central research questions in a highly stylized form, thus providing a background for the subsequent gradual introduction of more realistic assumptions. The second part of this section is devoted to a discussion of state autonomy under democracy. Section III focuses on the limitations originating from private property, specifically of the means of production. Finally, Section IV provides an overview and some reflections.

I. *Limitations of democracy*

1. *Neo-liberal critique*

In an ideal democracy—one in which all citizens are homogeneous, all are informed, and all vote: in which the voting procedure aggregates individual preferences uniquely and introduces no biases; and where state managers are perfect agents—the state would be efficient and taxes would be limited to covering the activities each and all citizens prefer. This image of democracy has been subjected to

innumerable critiques, some empirical and some purely abstract (3). For reasons discussed above, we shy away from confronting the implications of Arrow's theorem, as fundamental as they are. We will not discuss either Schumpeter's (1942) emphasis on the role of political elites or Schmitter's insistence that most important decisions are not (no longer ?) made through the democratic but through the corporatist system of representation (Schmitter 1974, and all that followed: Cawson and Ballard 1984, for a recent bibliography; but also Lembruch 1982, and Panitch 1980, for a different view of the relation between corporatism and democracy). We concentrate instead on one set of views which combines the traditional conservative critique of democracy with a liberal perspective of the economy, specifically, on the 'theory of regulation' inspired by Stigler and the somewhat distinct theory of 'rent seeking society' inspired by Krueger and Tullock.

The central claim of this perspective—we will refer to it as 'neo-liberal'—is that the market allocates resources to all uses more efficiently than political institutions. The democratic process is faulty and the state is a source of inefficiency. It even need not in fact do anything for inefficiency to occur: the very possibility that it might do something is sufficient.

Let us first examine the neo-liberal argument in the version of 'theory of regulation'. According to neo-classical economics, a set of complete and competitive markets would allocate resources to private uses in a way that is efficient, exhausts all gains from trade, and is Pareto optimal, where these three terms are equivalent. Such markets would fail, however, to perform efficiently in the presence of various impediments, such as externalities, increasing returns, transaction costs, etc. (See Bator 1958, for a list). Most importantly, markets supply inefficiently goods which are non-rival in consumption, the so-called 'public goods' (Samuelson 1966). The theory of the state that emerged from neo-classical economics was that the market should be relied upon for providing private goods while the state would provide public goods. As Arrow (1971: 137) put it, 'when the market fails to achieve an optimal state, society will, to some extent at least, recognize the gap, and nonmarket social in-

(3) The easiest assumption to modify is that of homogeneity. All the static results will be the same in the median voter models (Bowen 1943). Dynamic median voter models show that if the income of the median voter falls in relation tor the mean (typically because of extensions of franchise), the demand for state activities increases. Thus median voter models offer an explanation of the historical growth of government expenditures. (See Meltzer and Scott 1981; a more complicated model in the same spirit has been offered by Peltzman 1980).

stitutions will arise attempting to bridge it' (See also Musgrave 1971).

Neo-liberals attacked this theory in a number of ways: (1) by demonstrating that in the absence of transaction costs market imperfections can be efficiently dealt with by the market under a suitable distribution of property rights (Coase, 1960); (2) by pointing out that the notion of market imperfections, including public goods, is unclear and that no theory specifies them ex ante (Stigler 1975: 110); (3) by remarking that the fact that the market fails to act efficiently does not guarantee that the state would do any better (Stigler 1975, chapter 7; for a classification of 'public failures' see Wolf 1979); and (4) by claiming that public goods are produced not because they are beneficial to the public which demands them but because they are profitable to the private interests which supply them (again Stigler; Shepsle 1979*a*; Shepsle and Weingast 1984). The reason the state provides public goods is the same as the reason it does anything else: private self-interest of someone. These arguments serve neo-liberal writers to take as the point of departure the assumption that competitive markets are efficient, without any distinctions and complications.

Competitive markets would be efficient but now we have a state that intervenes or at least is able to intervene into the economy (4). The state is referred to here as 'the regulator' and not defined or described any further. One characteristic feature of this perspective is that little attention is devoted to political institutions. Peltzman claims that 'there is no need to confine the analysis to democratic societies. As long as suppressing dissent is costly to a dictator, he ought to be sensitive to the popular support for his policies' (1980: 221; also Becker 1983: 375). Politics is seen as basically the same everywhers. The regulator acts in self-interest and again little is said about what the regulator wants. Stigler mentions enrichment as a motive; Hirschleifer in his comment on Peltzman (1976) finds it strange to assume that politicians care about votes while everyone else is assumed to care about money; but in general the story begins one logical step further, with something called 'political support'. Whatever it is that politicians or bureaucrats may want for themselves, to obtain it they need political support; hence, the common assumption in these theories is that governments maximize support.

(4) One might think that inefficiency would emerge independently or the government because of other causes of monopoly. Neo-liberals are armed, however, with estimates by Harberger (1954), according to which the social cost of monopolies is minimal. They consider the perfect market to be a self-reproducing institution. This view contrasts with a neo-liberal program produced recently by the OECD, according to which 'Above all, it has to be recognized that no automatic process exists which guarantees the maintenance of competition' (1983*a*: 37). As the result, this program calls for comprehensive government intervention designed to make markets more competitive, while it opposes all other forms of government intervention, trade unions but also concentration of capital.

Support is something governments buy by transferring income and something groups sell in two forms: direct support (votes in a democracy) and other resources, mainly money, which produce direct support. Transfer of income is understood broadly. Everything governments do results in a transfer of income. Thus Stigler (1975: Chapter 8) includes besides direct subsidies of money the control of entry into industries and occupations, controls over substitutes and complements, regulation of prices and fares, etc. Krueger's (1974) list focuses on foreign competition, comprising tariffs, import licenses, and quantitative restrictions and is generalized to include examples such as minimum wage legislation and ceilings on interest rates. Becker (1983: 373-374) classifies transfer instruments into taxes, subsidies, regulations, and others. In general, any government action that makes the equilibrium outcome diverge from the competitive equilibrium constitutes a transfer of income.

Transfers of income necessarily cause inefficiency. What is involved in transfers is not just that someone loses while someone else gains from transfers but that the society as a whole suffers net losses. The central concept is 'deadweight losses' (Harberger 1971): gains accruing to beneficiaries are always smaller than costs suffered by losers because transfers of income modify behavior.

These losses of efficiency are of three kinds. First, there are deadweight losses proper. 'Every tax affects the tax base', this is the maxim. Taxes reduce demand for labor because they increase labor cost; they decrease investment because they raise costs of capital, and so on. Subsidies are equally inefficient: support for an industry makes its goods cheaper than they should have been in terms of opportunity costs and causes a misallocation of resources. Particularly pernicious are transfers from the rich to the poor: the response of the rich to taxation of profits is to save less, the response of the poor to transfers is to work less, and the dead weight losses are compounded. The 'empirical' estimates of the cost of deadweight losses are often astronomical. (We put 'empirical' in quotation marks because the procedure is often to assume some elasticities and simulate, rather than estimate. See Browning and Johnson 1984; Stuart 1984; Ballard, Shoven and Whalley 1985).

In addition to these standard examples, two other sources of losses of efficiency are highlighted by the theory of 'rent seeking society'. (Tollison 1982, provides a summary; Buchanan, Tollison and Tullock 1980, is a collection of recent work). These are rents dissipated by governments and the resources wasted in trying to influence the government to provide rents. We return to these categories below.

Since government intervention is always inefficient, how does it happen that governments do exist, regulate, tax, subsidize, impose barriers to entry, etc.? Presumably at least in a democracy, self-interested, rational citizens would vote against every kind of government intervention. But this is not the case. The reason is that the democratic process is necessarily faulty and citizens are rationally ignorant and manipulable. Since this is the core of the theory, let us stay closer to texts.

The democratic process is inherently 'gross or filtered or noisy' (Stigler 1975: 126). Voting can take place only infrequently; voters must decide all kinds of issues simultaneously; the alternatives facing them can be formulated only crudely. Moreover, in a democracy everyone can vote, 'not simply those who are directly concerned with a decision' (*ibid.* 124). Votes affect decisions on issues about which the particular voter may care little or not at all. Particularly since benefits of government interventions tend to be concentrated while their costs are diffuse, individuals have few incentives to learn about all issues on which they vote (Downs 1957; Becker 1958; Stigler 1975; etc.). They are ignorant rationally but ignorant nevertheless. 'The political decision process', Stigler (124) observes, 'cannot exclude the uninterested voter [...] Hence, the political process does not allow participation in proportion to interest and knowledge'. Moreover, this balance between costs and benefits of information implies that voters can be manipulated by being fed information and persuasion by interested parties (Peltzman 1976; Becker 1983). This is why the support offered by particular groups in exchange for rents includes not only votes but resources with which to produce votes (money, organization, etc.) and this is why individual voters are ultimately not sovereign. 'I believe', Becker (1983: 392) declares, 'that voter preferences are frequently not a crucial independent force in political behavior'.

Contrast the democratic process with the market. In the market no one is compelled to decide matters of no personal interest to him or her. Stigler's example merits attention: 'In a private market, the non-traveler never votes on rail versus plane travel, while the huge shipper casts many votes each day' (124). In the market decisions are made all the time and they are discriminating: if I want to buy olives, I compare prices of olives and buy olives; I am not

forced to buy anything else. In the market information is cheap and it flows continously: every time I go to a store I find what the current price of olives is. Thus Becker notes (392) that 'the average current person knows far more about supermarket prices or the performance of cars than about import quotas or public wages'. As the result, Stigler (126) concludes, 'The expressions of preferences in voting will be less precise than the expressions of preferences in the marketplace because many uninformed people will be voting and affecting the decision'.

The market is just a superior mechanism for revealing sovereign preferences. The traditional neo-liberal reason is emphasized by Tollison (1982: 589):

> The market is a proprietary setting where individuals bear the consequences of their actions in the form of changes in their net wealth. The political setting is a non-proprietary setting where individual agents do not always feel the full benefit and cost of their decisions.

And the conclusion (594) follows:

> The point of this discussion is that political competition under one man-one vote conditions does not lead to efficient outcomes in the same sense that such outcomes are produced by competition in private markets.

Or, as Burke wrote, with regard to distribution of income through taxation, is it

> better to leave all dealing, in which there is no force or fraud, collision or combination, entirely to the persons mutually concerned in the matter contracted for; or to put the contract in the hands of those, who can have none, or a very remote interest in it, and little or no knowledge of the subject (1984: 62).

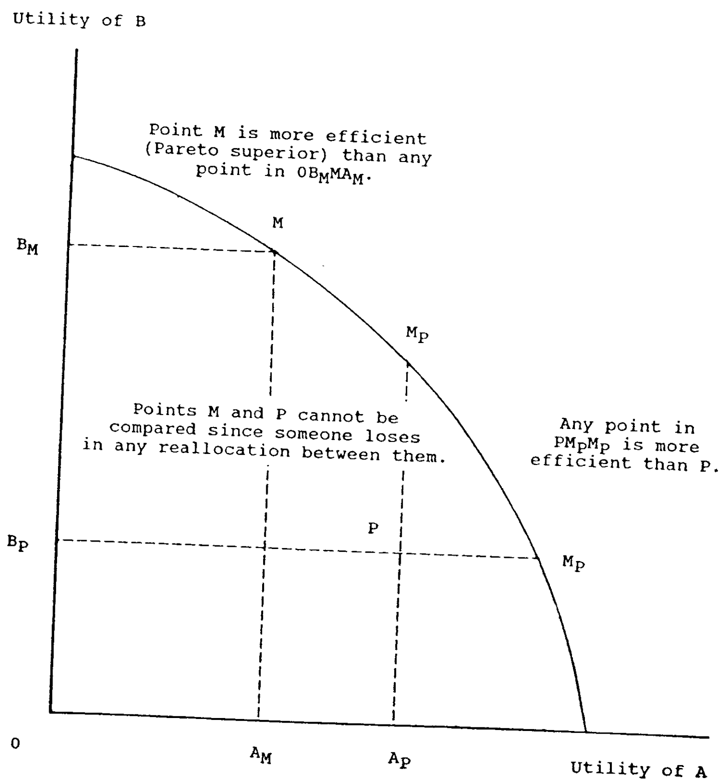
Indeed, Burke's Thoughts and Details on Scarcity, written in 1795, presage most arguments discussed above, including even deadweight losses.

Within the context of our discussion, the implication of the neo-liberal critique can be thus summarized as follows: the principle of popular sovereignty can be realized only through the combination of private property and market rather than throught democratic (or other political) institutions. Democracy is not an adequate institution for the realization of popular sovereignty.

2. *Discussion*

Two technical points—one empirical and one conceptual—are important in evaluating the neo-liberal arguments. The empirical issue concerns deadweight losses: whether these are indeed prevalent and unavoidable (5). This issue will not be discussed here; we

FIGURE I



(5) In a recent review of theory and evidence, Sunders and Klau (1985, Chapter V) fail to find clear evidence that taxes cause deadweight losses. They note that 'the evidence to date has produced estimates of labour supply responses to taxation which are neither strong nor robust [...]' (166); that the effect of taxes on the demand for labor is theoretically ambivalent and does not show empirically in a cross-section of

return to one crucial aspect below, in the discussion of private property. The conceptual issue concerns the concept of efficiency, understood as Pareto optimality.

In the neo-liberal view government intervention always introduces inefficiency. The assumption must be that the society first reaches some point which is efficient, that is, which lies at the Pareto frontier, and then enters the government, which causes deadweight losses to occur, and pushes the allocation of resources to a point inferior to the original one. But the general thesis is not warranted, for several reasons.

First, in the technical language of efficiency not all allocations of resources can be compared. (For a clarification of these issues and a similar critique see Coleman 1982*a* and *b*). Suppose the market (in which some agents vote their preferences several times a day while others never do) allocates resources in a way M, which is efficient. Suppose the democratic system (in which everyone has one vote, even poor people) allocates resources in a way P. Is it always true that P is less efficient than M? The answer is 'no': several possible allocations M and P cannot be compared with regard to efficiency. Point M may lay on a possibility frontier that is farther out than point P but moving from P to M would make someone worse off: hence M is not Pareto superior to P. Unless there exists an alternative which would make everyone better or equally well off, a policy is not inefficient.

Secondly, to say that a policy causes deadweight losses is to assert that it reduces national income but not that it necessarily reduces social welfare. Government actions typically hurt some people and benefit others. That aggregate losses of income exceed aggregate gains is not relevant unless interpersonal comparisons of utility are permitted and utility is measured in money terms (6). Thus, even

the OECD countries(174), that 'The view that countries with comparatively high tax burdens tend to be those with weak savings propensities cannot be supported on the basis of the data [...]' (177); and, finally, that the effect of taxes on investment cannot be assessed in aggregate terms (185). Each of these topics is a subject of intense research activities and conclusions are premature. Given the existing evidence, it seems clear, however, that the neo-liberal emphasis on the pernicious effects of taxes is excessive.

(6) Harberger (1971) defended such comparisons as a means for practical criterion of welfare, assuming that utility is a function of income and by postulating that all units of income should be given equal weight. Under these assumptions welfare losses (inefficiency) can be measured by the reduction of consumer surplus. That this is not a universally accepted procedure is best shown by this conclusion of a textbook: 'attempts to use consumer's surplus to measure welfare losses are largely the application of the inappropriate to measure the undefinable'. (Silberberg 1978: 494). For a recent clarification of controversies on this topic see that article by Morey (1984), entitled 'Confuser surplus'.

if it were true that government interventions necessarily decrease aggregate income, the inference from losses of income to those of welfare cannot be sustained.

Finally, the model proposed by Peltzman (1976) and elaborated by Becker (1976, 1983) implies that the political allocation must be Pareto efficient. Suppose it were not. Then, by definition, there would exist some alternative policy (including non-intervention) which would make at least one person better off and none worse off. In Figure 1, every point on the utility possibility frontier between Mp and Mp is Pareto superior to P and would produce greater political support than P. If such a point were economically feasible, P would never be chosen by a support-maximizing politician. Hence, whatever is the choice of a support-maximizing politician, it must lie on the utility possibility frontier (7).

To conclude, the technical language is not correctly used by neo-liberal writers who must be relying on an implicit and prior assumption that allocations resulting from the democratic process are inferior to market solutions on grounds other than efficiency (8). The proposition that every government intervention is a source of inefficiency cannot be sustained within the language of economic theory.

While the views discussed above emphasize the alleged inefficiency of policy outcomes, another perspective focuses on the waste involved in the political process. The neo-liberal view of the political process becomes most apparent in the theory of 'rent seeking society'. (Krueger (1974) provided a clear and still reasonable version of this theory). In this account, the government is a source of potential rents, originating for example from quantitative restrictions of imports. Since there are rents to be gained, economic agents compete to obtain them. If import licenses are distributed in proportion to company size,

(7) A similar point has been made by Joskow and Noil (1981: 39) in their review of theories of regulation: 'the inherent inefficiencies of regulation that flow from these theories have no natural normative consequence, although one would not deduce this from the tone of the literature. That regulation fails to reach a Pareto optimum is fairly uninteresting if no institutions exist that can reach a point that Pareto-dominates regulation. For regulatory interventions that deal with empirically important market imperfections, the departure of regulatory equilibrium from perfect competition is not normatively compelling'.

(8) Another criticism which can be still formulated within the neo-classical assumptions is more obvious, even if controversial. The neo-liberal argument is based on 'first best' assumptions: the market with regard to which government causes inefficiently is perfect. Existing markets never are and the question thus becomes whether every government intervention causes inefficiency in the real world. Peltzman (1976), who provides the most systematic and thorough exposition of the model, does allow that regulation may under some conditions decrease monopoly. This issue has been a subject of polemic between Bhagwati and Tullock.

companies increase their size to compete for the licenses. Efficiency thus suffers for two reasons: the standard reason, namely, protection, and the additional reason, namely, the waste involved in inefficiently large companies.

This story assumes a general form of 'theory of society' in the writings of Buchanan, Tollison and Tullock (1980) and their collaborators. Government intervention generates rents: this is a waste of consumer surplus. If governments themselves appropriate the rents, they are likely to dissipate them through unproductive activities (see in particular Tullock's response to Bhagwati). On top of all this, everyone wastes resources trying to influence the government. The last point constitutes the specific focus of this argument. Suppose that two industries wine and dine government officials one lobbying for and the other against a tariff and that at the end the government decides not to introduce this tariff (Young 1982). Efficiency does not suffer from government intervention: the government has not intervened. Yet resources were wasted on trying to influence the government: the very ability of the government to intervene is a cause for waste. Even if the government were eventually to introduce a tariff and cause inefficiency in this way, resources would have been saved if the decision was made without any influence. What should governments do then? Answer: we would be better off if they just did without the influence whatever they would have done under the influence. And how are they to know what? They should listen to economists (9). The sublime logic of this theory is captured by Dixit and Grossman (1984) who point out that many resources would be saved if places in heaven were awarded deus ex machina, without anyone having to go through the process.

The political process is exactly what constitutes waste in this perspective. This theory takes the neo-classical method to its ultimate conclusion: preferences of individuals are exogenous and fixed and equilibrium is reached instantaneously, or we are always in it: see an illuminating discussion by Silberberg (1978, Chapter 16).

(9) One would think that the exclusive reliance on the market would put economists out of the business of government. But no, both Stigler and Tollison seem to believe that everything would be all right if they could just simply run the economy themselves. Here is Stigler (1975: 111):

> This is a thoroughly unatractive role which is assigned to the economist: he does not tell the society what to do in the area of economic policy, but merely draws intricate diagıams to explain why the state undertakes what economic functions it happens to undertake.

Tollison (1982: 588), speaking of the task of economic theory of politics:

> This theory seeks refutable propositions and predictions about how government functions in order to explain the divergencies between the prescriptions of economists and governmental practice.

Might there be a tension between free market and megalomania?

Hence, there is neither need nor place for any kind of process: preferences will not be altered and the outcome is known directly from preferences and constraints. At least in the 'theory of regulation', the 'Chicago' version of neo-liberalism, political process is ultimately found inferior to the market because of its imperfections. In the 'theory of rent seeking society', the 'Virginia' version, there is just no place for politics: politics is a waste.

Thus, the conclusions of the neo-liberal perspective are based on a prior preference for the market and on a bias due to the method of reasoning. The ideological preference for private property, which is normally expressed by phrases about 'interest' and 'responsibility', leads neo-liberal writers not only to reject all notions that an allocation of resources can be evaluated by distributional criteria but also to forward a claim that cannot be fully sustained by the assumptions of the theory, namely, that allocations of resources resulting from preferences of citizens revealed through the democratic process are necessarily less efficient than market solutions. The methodological bias—that preferences are fixed and adjustement to equilibrium instantaneous—leads to a neglect or outright rejection of any value of the democratic process.

3. *Neo-liberalism and Left critiques of democracy*

Yet note that the empirical diagnosis of the really existing democracies would be accepted with only slight changes of language by left-wing critics as well. Citizens in a democracy are not sovereign and the state acts in the interest of private groups: would Miliband (1969) or Habermas (1975) or Anderson (1977) or Bobbio (1984) disagree? 'Preferences' (note the quotation marks) can be manipulated and created through the information and misinformation provided by interested pressure groups [...]'. 'Pressure groups can "purchase" favorable votes with lobbying and other political activities [...]'. This is a traditional left critique of capitalist democracy. (Needless to say, the quotes are from Becker 1983: 392). So are the assertions that the state is an instrument of private groups, that it is incapable of introducing rationality into the capitalist economy, and that recently it lost even a minimal capacity to act coherently, having been permeated by conflicts of private interests.

Indeed, one can tell a story about the role of the state regarding the economy to which Stigler and Habermas would agree. Until the Great Depression the state only assured the operation of the

market but did not intervene. There was thus no reason for private economic interests to seek influence over the state. Then came the Keynesian revolution: the state acquired the capacity to intervene. But as the result of its newly acquired powers, it soon lost the ability to resist pressures from private groups which now had good reasons to seek influence over the state. Permeated by private interest, the state began to generate massive inefficiencies as it responded to conflicting pressures, in particular for accumulation and legitimation. From a cohesive institution with distinct functions, the state became transformed into an incoherent amalgam of bureaus and committees without clearly defined functions. By that time marxists concluded that a failure of reproduction is possible: a diagnosis shared by the neo-liberals, who responded with a revolution against the state. (This is also the moment when some sociologists discovered the state and decided to bring it in).

For neo-liberals limitations of democracy constitute an argument for the inherent superiority of the market; for leftists these limitations have always signified a need for democratic reforms. Increased participation, citizen education, local self-government: these are some of the standard instruments in the arsenal of democratic reformers. The traditional marxist call went much further: marxists maintained that the crippling impediment to political democracy is the private property of means of production (about which below) and, therefore, that capitalist democracy cannot be reformed. Hence, three solutions have been put forth in response to the same empirical diagnosis: (1) to do away with democracy, at least, with the possibility of democratic intervention into the economy; (2) to reform democracy; (3) to do away with private property. These are irreducibly political positions: they are based on beliefs about the feasibility of different forms of society and they are associated with values and interests.

II. *State autonomy*

1. *Forms of state and policy outcomes*

To provide analytical instruments, consider first a general theory of pure types of states. The proposed theory is based on neoclassicaly inspired writings by economic historians, in particular Lane (essays collected in 1979: see also Ames and Rapp 1977; Davis 1980;

Levi 1981; North 1981; and Tilly 1984, who objects against the neo-classical framework) and some elements of Wiliamson's (1964: see also Furubotn and Pejovich 1972) theory of the firm.

States differ in three characteristics: (1) property rights to fiscal residuum, (2) locus of decisions concerning the variety and quantity of government activities, and (3) organization of production of services. Fiscal residuum is the difference between benefits and costs of state activities, whatever these are. This residuum may be considered legally to be the property of state managers, whoever they are, or of citizenry in general. Authority to decide the kind and amount of services and goods to be provided by the state can reside either in the state apparatus, elected representatives, or citizens directly. Finally, services and goods may be either produced by the state apparatuses themselves, with state managers benefiting from the production, or contracted out to third parties and thus produced as a cost to the state.

Particular combinations of these characteristics define four types of state that are of interest. We will say that in a 'republic' citizens have the property right to fiscal residuum, they or their perfect agents make decisions concerning the variety and quantity of government activities, and the production of services is a cost to the state. We will call the 'princedom' a state in which the managers have the right to the fiscal residuum, they decide variety and quantity of government activities, and they in turn bear costs of performing these activities. We will call the 'bureaucracy' a state in which the property right to the fiscal residuum resides with citizens, decisions about government activities are made by state managers who are not effectively supervised, and the services are produced by the state apparatus itself, the members of which benefit from this production. Finally, a *junta* is already a mixture: a state in which the property right to the fiscal residuum lies effectively with state managers (perhaps because laws do not determine effective rights) and decisions are made by the state apparatus, which benefits from the production of services. These characteristics of the four types of state are summarized in Table 1.

States provide services. Services increase the revenues of the economy above the ('competitive') rate that would accrue to the available capital stock without them. The classical example is protection. The state provides armed ships which escort commercial vessels. The number of ships that would get through robber infested waters without any protection defines the competitive rate of return. Protection increases the number of ships which complete the journey

and to the extent that Venice protects her ships better than Genoa. Venetian merchants benefit from differential rent. Hence, the total return to capital is the sum of the competitive rate and the differential rate when applied to the capital stock. Note that the differential rent and thus the total benefit from government activities increases with their quantity (perhaps at a decreasing rate).

TABLE 1

Types of state

Type of state	*Property of fiscal residuum*	*Locus of decisions*	*Production of services*
Republic	citizens	citizens	costly
Princedom	state	state	costly
Bureaucracy	citizens	state	beneficial
Junta	unclear	state	beneficial

States extract payments. They must do so because production of services is costly. We will call 'taxes' all revenues received by the state. Any excess of extracted payments over costs constitutes 'tribute', a rent extracted by the state due to its monopoly on violence (itself resulting in Lane's view from positive returns to violence). The extreme limit of tribute is when the state takes from the people all they have: this is 'plunder'.

States perform activities and extract payments. People benefit from these activities and they pay. With these assumptions we can now answer the following question: what is the level of state activity and the amount and form of payments by the people that are characteristic of each type of state? We will ask in particular whether the quantity of services is efficient, whether the payment is excessive and whether this payment assumes the form of tax or tribute.

Consider first a republic. In fact, suppose we have a republic in which citizens are homogeneous and in which they all vote simultaneously to choose from all the conceivable alternatives the amount of services and of payment. The citizens want to maximize their net benefit from government activities, that is, to choose the level of activities which maximizes the difference between benefits and costs. Consider again protection. Citizens will choose the level of protection which is efficient from their point of view, that is, the level for which the marginal benefit equals the marginal cost. The merchants of Venice will fund just so many convoy ships that the last one added will exactly pay for itself in the benefits of additional protection it provides. It would make no sense for them not to add this ship since the one before still contributed more in protection than in cost: it would make no sense to build more than this ship because the next one would cost more than it contributes. Having chosen the efficient amount of government services, citizens of the republic will vote to pay the cost of production of services but not monopoly rent to the state. This then is the first conclusion: the government would be efficient and taxes limited to costs in a state in which the property right to fiscal residuum rests with citizens, in which decisions are made by citizens or their perfect agents, production of services is costly to the state, and in which homogeneous citizens all vote simultaneously choosing along one dimension from all conceivable alternatives. This conclusion provides the standard for the rest of the analysis: it defines the ideal or popular sovereignty, in a spirit consistent with the eighteenth century vision.

To underline the contrasts, consider briefly some other types of state. The prince has the legal right to fiscal residuum. This kind of state seeks to maximize its net revenue, that is the difference between tax receipts and costs of activities. If the prince is unconstrained, either by the political power or economic decisions of the taxpayers, this state chooses the efficient level of activities and them plunders. If the prince must for some reason stop short of plunder, the state supplies less than the efficient level of activities.

The bureaucracy has no legal right to the fiscal residuum but it can make decisions about government activities without supervision and it benefits from these activities regardless whether these are useful to anyone else. Perhaps *nomenklatura* would be a better term, since this description fits well the Soviet model. Bureaucracy chooses an inefficiently high level of activities and extracts through taxes the cost of these activities. Finally, the junta is a hybrid of the princedom and the bureaucracy. Either it oversupplies government services and collects no tribute or supplies an efficient level and plunders.

These conclusions are summarized in Table 2.

TABLE 2

Policies of different states

	Level of state activity	*Level of extraction*
Republic	efficient	cost only
Princedom	efficient	plunder
Bureaucracy	excessive	cost-only
Junta	some combination of excessive activity and plunder	

Here then are the principal hypotheses derived from this theory: (*1*) Whenever the property right to fiscal residuum rests with the people, who decide directly or through perfect agents upon government activities, which are produced at a cost to the state, the level of government activity will be efficient and the payments extracted from the people will be limited to the real cost of these activities; (*2*) Whenever the property right to fiscal residuum rests with the state, which decides unconstrained upon activities and produces them at a cost, the level of activity will be efficient and the payment extracted will include monopoly rent; (*3*) Whenever the property right to fiscal residuum rests with the people but decisions about activities are made by state managers who are autonomous and who benefit from government activities, the level of activities will be excessive and the payment extracted from the people will cover but be limited to the cost of this level; finally (*4*) Whenever the property right is ill-defined and the powr to make decisions rests with state managers who benefit from government activities, either the level of activities will be excessive or the payment extracted exorbitant. These hypotheses are deduced from assumptions summarized in Table 1.

The main question that needs to be posed with regard to these pure forms of state is to what extent their policies would differ once state managers take into consideration constraints originating from the economy. Such constraints tend to be ignored in the writings that emphasize state autonomy. This is true of the economic history literature as well as of the analyses of budget maximizing bureaucrats. In Lane's (1979) model only the positive effect of protection on the economy is considered while in North's (1981) theory economic constraints are limited almost exclusively to those that affect the ease of collecting taxes. In turn, models of autonomous government under democracy tend to ignore the effects of inefficient supply of services by government upon the economy on the assumption that the particular bureaus or committees presumably internalize only a small part of such effects and thus need not be concerned about them.

It we assume that the state operates in an economy comprising agents, individual and collective, who have property rights to their own labor power and to alienable productive resources (capitalism) and who behave strategically in their self-interest, it will be apparent that any government is in numerous ways contrained by the responses, and even by the anticipations, of these agents to government policy. As Schumpeter argued in 1918 (1954: 21), any self-interested government must temper its temptation to prey on the economy. The open question is whether the economic constraints are so compelling as to nullify the differences originating from the forms of state listed above or sufficiently loose to allow for institutionally caused differences in policy outcomes.

2. *Autonomous bureaus*

The state is autonomous when state managers have goals of their own and the institutional capacity to make decisions and execute them. Some of the pure types of states discussed above are autonomous in this sense. According to several theories, however, the state is in various ways and to varying degrees autonomous—from voters, groups, or classes—even under democratic institutions (Krasner 1978; Nordlinger 1981; Poulantzas 1973; Skocpol 1985). Even in a democracy, state officials—elected politicians and appointed bureaucrats—are not perfect agents of the public on whose behalf they perform responsibilities: they do not act in the best interest of citizens.

We are concerned here mainly with those theories which view state autonomy as a threat to popular sovereignty, in particular, the threat presented by bureaucrats who seek to appropriate resources by expanding government activities beyond the socially optimal level. We only touch upon the theories which consider the threat originating from politicians, specifically elected representatives who oversupply government services to win re-election (10).

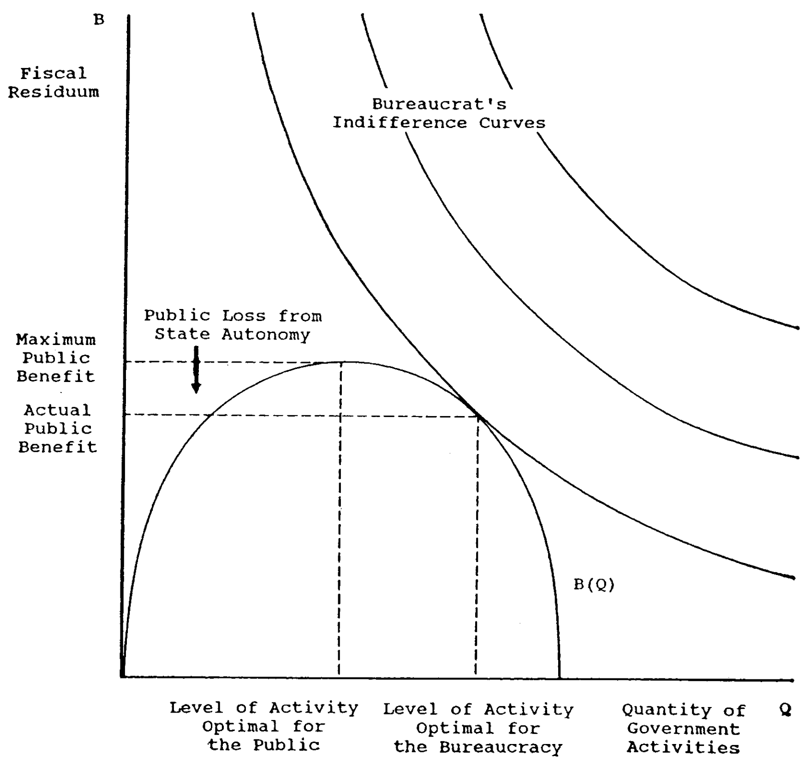
(10) Sources of threat to popular sovereignty are numerous and the most prominent among them is not discussed here at all; the autonomy based on control of organized physical force by the military (see Stepan 1978). The discussion here is centered around the issue of state intervention in the economy since this issue provides a common framework in which alternative threats to sovereignty can be evaluated. Even with regard to this issue two phenomena are not analyzed here: the control of agendas by political parties and the management of the economy for purposes of re-election. (This literature is enormous; for general reviews see Alt and Chrystal 1983; Borooah and Van der Ploeg 1983; Frey 1978; Frey and Schneider 1982; Hibbs and Fassbender 1981).

The issue of state autonomy arises in a democracy because government officials have the legal right to make certain decisions while they have no property right to the fiscal residuum that may result from government activities. The story of a bureau can be told simply: (1) Bureaucrats want various things for themselves and they care to some extent (from not at all to very much) about their contribution to public welfare. They are indifferent among various combinations of private rewards and public benefits. (2) Bureaucrats must obtain some rewards if they are to perform effectively for the public: hence, public benefit increases for some time along with the private reward of the bureaucrats. But as private rewards increase, they begin to eat into the benefits of the public. (3) Bureaucrats make decisions without perfect supervision so they can choose the alternative which maximizes their satisfaction. (4) This choice is not the optimal one for the public, which thus suffers from state autonomy.

In Figure 2 the benefit to the public ('fiscal residuum' B) is measured on the vertical axis. The horizontal axis measures the level of government activity (Q, for 'quantity'), since it is assumed that private rewards of bureaucrats increase as government does more. Bureaucrats are equally satisfied by all combinations of private rewards and public benefits that lie along the same indifference curve but they would like to have as much as possible of both. The function B(Q) ('possibility frontier') describes the relation between the level of government activity and public benefit. Public benefit increases at first as rewards of bureaucrats (numbers of employed, salaries, facilities, perks, etc.) increase. It reaches a maximum, and then declines as the level of government activity continues to grow. At the maximum the society benefits the most possible from government activities: this is the social optimum or the efficient solution. If bureaucrats are not perfectly monitored, however, they choose a level of activity which maximizes their own satisfaction and this level exceeds the socially optimal one. Society suffers as the result.

What bureaucrats want for themselves is not exactly clear. According to Niskanen (1971), almost everything they want—salary, perks,

FIGURE 2



power, patronage, and regulation but not ease of managing and making changes—increases with the size of the budget: this is why Niskanen speaks about budget maximizing bureaucrats. According to Williamson (1964), managers in general like various perks which increase with the size of the staff and this assumption was applied to public bureaus by Migué and Bélanger (1974). Parkinson (1957) thought bureaucrats like employing more labor; De Alessi (1969) saw them as biased in favor of more capital. The point is that whatever they want, they get it either by producing too much or too expensively or with a bias toward one factor.

Although the literature is enormous, this is not a complicated theory. Niskanen (1971) assumed that bureaucrats maximize budgets up to the constraint of allocations by committees and he discovered that bureaus overproduce services beyond the efficient point. Migué and Bélanger (1974) assumed that staff is not included as a cost when decisions are made and they discovered that bureaus will overstaff and thus produce both too much and too expensively. Orzechowski (1977) assumed that bureaucrats have a bias in favor of employing labor and he found you know what. Empirical studies comparing the efficiency, the cost, and the employment in public and private enterprises producing the same services tend to be poor methodologically since the direction of causality is difficult to determine: are private companies more efficient because they are private or are they private because they are more efficient? Sometimes one has the impression that desperation is involved in proving the point, for example, in a study which shows that, per unit of capital, public universities in the United States hire about forty per cent more labor than private institutions—without controlling for the number of students (Orzechowski 1977: 257).

3. *Constraints*

These models of autonomous bureaus pose almost no limits upon the behaviour of bureaucrats. The question is how much autonomy would remain if some realistic constraints upon bureaucratic decisions were to be incorporated in the analysis. These constraints are threefold: (1) supply side factors, that is, the costs of producing government services and of collecting revenues, (2) considerations originating from the economic system, and (3) supervision by elected representatives or citizens directly.

(1) Supply constraints. Supply constraints are numerous. They have received systematic attention particularly from North (1981). Supply constraints become expressed as costs of producing services and of collecting taxes. These costs reflect difficulties in measuring output, monitoring transactions, extracting payments, etc. The classical example in history concerns the change in costs of warfare which resulted from the introduction of canons and the consequent importance of infantries (Poggi 1978; Schumpeter 1954; Tilly 1984). Ceteris paribus, an increase in the cost of services or in the cost of collecting taxes will force bureaucrats to decrease their level of activity. Ward (1982) offered a theory of the growth of government formulated

exclusively in supply terms: government expenditures grew because over time it became cheaper to collect taxes.

(2) Economic constraints. Even autonomous states are constrained by the structure of property. Since the issue of economic constraints forms the central topic of socialist critiques of capitalist democracy, it is best discussed separately from questions of state autonomy. This is done in the next section.

(3) Institutional constraints. The constraints originating from supervision by elected representatives have received widespread attention. Two questions should be distinguished: whether bureaus can be effectively monitored by some other body, typically, the legislature and whether the supervisors themselves prefer an efficient outcome.

With regard to the relation between bureaucracy and legislature, the general conclusion of Miller and Moe (1983: 321) is undeniable: 'Formal models of bureaucracy [...] have given undue emphasis to its independence, flexibility, and decisional control—and, in the process, either ignored or downplayed the capacity of legislature, specifically its committees, to act just as purposely and forcefully in achieving ends which may be quite at variance with those of the bureau'. Let us follow Miller and Moe in their analysis and then generalize the problem out of the institutional context of the United States.

The critique by Miller and Moe is directed to Niskanen (1971) but it is valid with regard to the thesis of autonomous bureaus in general. For the glaring question is how do the bureaus escape supervision by elected representatives? In the Niskanen model, bureaus enjoy autonomy because (a) they have a monopoly on the supply of a particular service, (b) only they know the real costs of providing this service, and (c) they confront their legislative supervisors with an all-or-nothing choice. Niskanen's account of the budgeting process goes as follows: An oversight committee reveals how much it is willing to appropriate for each quantity of services: the bureau looks at its cost schedule, finds the maximum it can produce given what the committee is willing to pay, and communicates this amount to the committee, which then makes the final 'decision'. In fact, the only decision the committee makes is about its demand function. Once this decision becomes public, it is the bureau which decides how much will be produced, and we already know that it will produce as much as possible, beyond the socially efficient level. Miller and Moe point out that this account is based on peculiar assumptions and does not correspond to reality, specifically the reality of the United States Congress. Oddly, in the Niskanen model only bureaucrats are rational while legislators do not behave strategically. Moreover, in fact the committees, not the bureaus, make final decisions and the committees are not forced to choose between a level proposed by the bureau or nothing. Miller and Moe contrast the procedure described by Niskanen ('demand revealing oversight') with the other extreme possibility ('demand concealing oversight'): the committee orders the bureau to inform it about the costs of producing particular amounts of services and the committee then picks the quantity that maximizes its own satisfaction (see also Breton and Wintrobe 1975). They retain Niskanen's assumption that the bureau can lie about the true costs but the powerful result is that if the bureau is forced to provide a cost schedule without knowing the committee's demand schedule, the bureau will find it in its own best interest to reveal the true costs. Thus if the oversight committee is a perfect agent of the public, the outcome will be the socially optimal level of government activities. Translated into the general context of our discussion, this result is far reaching: even if the bureaucracy can hide costs, it is sufficient that it be forced to reveal any supply schedule to the public or its perfect agents and the level of government activities will be efficient. Note that both Schumpeter (1954) and Poggi (1978: Chapter 3) believe that the *Ständestaat*—a form of state in which, among other features, the prince had to turn to the estates with requests for specifically targeted funds—was efficient. The autonomy of bureaus is thus not inevitable.

The question that remains is whether committees are perfect agents of the public. Bureaucrats may be effectively supervised but the legislators who monitor their behavior may be also interested in programs that add up to an inefficiently excessive level of government activities. A series of analyses of the United States Congress demonstrated that under the particular institutional arrangement characterizing the United States electoral system and Congressional budgetary rules, legislators seeking reelection had good reasons to participate in vote trades that resulted in government overspending (Ferejohn 1974; Fiorina 1977; Shepsle and Weingast 1981; Weingast 1979). Indeed, much of the American discussion is whether the bureaucrats or the legislators should be blamed for the alleged oversupply of services by the government (Weingast and Moran 1983 is a recent illustration). Miller and Moe distinguish whether legislative oversight is demand revealing or demand concealing, whether the service is provided by a government bureau or a private firm, whether the supplier is a monopolist or there is competition among suppliers, whether the oversight committee has a high demand for the particular service, and whether the legislature as a whole has a high demand for government services. Their conclusions show that while the Niskanen result is possible under some extreme conditions, under other conditions the bureaucracy may be forced to undersupply socially beneficial services and under still other arrangements it will supply services exactly at the socially optimal level. Thus whether bureaucrats are effectively supervised and whether supervision by elected representatives makes the final outcome efficient depends upon institutional factors specific to electoral systems, organization of legislatures, and powers of legislative committees with regard to bureaus.

4. *Unresolved issues*

To analyze the possibility and the effects of state autonomy, we thus need the following model. There are voters, parties, elected politicians, and bureaucrats, each category with specific goals of their own, all embedded within particular institutions. They behave strategically with regard to one another. Institutions play a crucial role since they delimit and enable the feasible courses of action: for example, whether representatives will want to promote their districts or their party, whether representatives will be able to decide each spending item separately, whether a legislative committee will have the power to force the bureaucracy to reveal the supply schedule, whether and who will be able to control the agenda, etc. (See Fiorina and Noll 1976). Eventually, the particular institutional arrangements determine which kind of outcome is more likely, where these outcomes can be distinguished in general game-theoretic terms. Under some arrangements, bureaus and committees may be able to reach a cooperative solution; under some arrangements the non-cooperative outcome in which everyone chooses their courses of action simultaneously (Nash) may be more likely (in Miller's 1977 general formulation this solution is socially suboptimal). Under other institutions one party, legislators or perhaps even voters, will be able to force bureaucrats to reveal first their eventual reactions (Stackelberg solutions). Each of these solutions implies a different level of government activity and a different distribution of its costs and benefits.

Unfortunately, cross-national empirical evidence for this approach

is almost non-existent. The topic of state autonomy suffers from a particularly large gap between theory and data. As shown above, public choice approach generated a large body of theory, which is highly sensitive to institutional context and which implies predictions concerning patterns of government activities. Yet systematic empirical examination of these theories is limited to the United States, while cross-national research continues to be atheoretical. Following Nettl's (1968) seminal article, there is now an enormous body of writings concerning 'weak' and 'strong' states and 'degrees of autonomy'. (For recent reviews of this literature see Birnbaum 1985; Skocpol 1984). Yet this literature is completely oblivious of public choice theory. It relies instead on inductive generalizations from the so-called 'case studies' to illustrate the importance of state institutions for policy formation. But many stories do not make a theory and we fail to learn from these studies which specific aspects of state institutions account for its autonomy. Thus all that can be said now is that state autonomy is not inevitable under democratic conditions but particular institutional arrangements may foster the autonomy of bureaucrats or legislators or both (11).

The fundamental impression that emerges from the theoretical analyses of relations among state institutions is not that the state is necessarily autonomous but that these institutions lack a single universalistic rationality that would both distinguish and separate them from private and thus particularistic actors. The Hegelian and, in a different way, the Weberian legacies left a vision of the state as a cohesive actor, imbued with a *sui generis*, universalistic, rationality, and charged with distinct functions. In various Marxist analyses,

(11) This situation is particularly regretable because the empirical validity of the models arising out of public choice assumptions is far from evident. Even the very core of the theory—the proposition that government spending would be higher where benefits are concentrated and costs are diffuse—fares badly in a simple confrontation with cross-national data. For example, public choice theory implies (Fiorina and Noll 1976: 252-253) that *ceteris paribus* government should have grown larger in the plurality/majority than in the proportional representation systems. A quick calculation shows that between roughly 1960 and 1979 total government expenditures increased on the average by 8.5 per cent in five plurality/majority systems and by 18.3 per cent in ten proportional representation systems; by 1977-79 the average level of total government expenditures was 38.8 per cent of GDP in the first group of countries and 49.1 in the second. (Expenditure data are from Schott 1984: Table 3.6, information about electoral systems is derived from Rae 1971: Table 2.1). Moreover, government expenditure turns out to be higher by 7 per cent in countries that have a unitary rather than a federal system (Saunders and Klau 1985: 117). When one reads the American literature on government 'overspending' one tends to forget somehow that during the sixties and seventies total government expenditures grew less in the United States than in any other industrialized country and that only Japan and Australia now have lower government expenditures.

particularly those of Poulantzas (1973) and the German capital logic school (Holloway and Piccioto 1978), the state was treated as the unified actor which assured the cohesion of the social system as a whole. The Weberian tradition has been recently rehabilitated by some sociologists who were so impressed by their discovery of institutions that they decided that the state is the 'center' of society. This view of the state was challenged by various versions of capture theory which observed that the state was not cohesive because it was permeated by private actors with their particularistic interests. The implications of the public choice approach go even deeper. The cohesion of the state is always problematic for purely institutional reasons: the state is a complex system without a fixed center of cohesion. The problem with viewing the state as a center of anything else is that the state has no center itself. Indeed, as Schmitter (1984: 3) put it, the contemporary capitalist state constitutes 'an amorphous complex of agencies with very ill-defined boundaries, performing a great variety of not very distinctive functions'.

IV. *Private property*

1. *Structural dependence of the society upon capital*

Popular sovereignty is not possible in a society in which means of production are owned privately. Capitalism is a class society: in a class society real democracy is not possible: this is the core of the traditional socialist critique of democratic capitalism. In such a society, the effective power is tied to the ownership of capital and no formal institution can make the people sovereign (Luxemburg 1970; Pashukanis 1951). People may have political rights, they may vote and elect governments, governments may pursue the popular mandate, but the effective capacity of any government to attain whatever goals is circumscribed by private decisions of owners of capital. The nature of political forces which come to office does not affect this dependence, for it is structural: a characteristic of the system and not of occupants of governmental positions, the winners of elections (12).

(12) Obviously, this is neither the only socialist critique of capitalism (for an excellent list see a recent paper by Roemer 1984) nor the only reason citizens are incapacitated under capitalist democracy. Some reasons cited by socialists are not much different from the neo-liberal critique: these have been mentioned before. Lack of financial resources and of leisure time explain why poor people are disadvantaged in formally neutral electoral competition. Moreover, private ownership of the means of production includes the means of intellectual production and in some views is the source of intellectual domination (Anderson 1977).

The belief that under capitalism governments are structurally dependent upon capital is widespread. Miliband (1969: 152) portrayed this dependence as follows:

> Given the degree of economic power which rests in the 'business community' and the decisive importance of its actions (or its non-actions) for major aspects of economic policy, any government with serious pretensions to radical reform must either seek to appropriate that power of to find its room for radical action rigidly circumscribed by the requirements of business 'confidence'.

According to Block (1977: 15), 'those who manage the state apparatus—regardless of their own political ideology—are dependent on the maintenance of some reasonable level of economic activity', which in turn depends upon maintaining business confidence. Offe (1975: 234) analyzed the predicament of the state *vis-à-vis* the private economy:

> the political system can only make offers to external, autonomous bodies responsible for decisions: either these offers are not accepted, thus making the attempts at direction in vain, or the offers are so attractive in order to be accepted that the political direction for its part loses its autonomy because it has to internalize the aims of the system to be directed.

Offe and Runge (in Offe, 1984: 121) summarized their description of structural dependence with the assertion that under democratic capitalism, 'the institutional form of this state is determined through the rules of democratic and representative government, while the material *content* of state power is conditioned by the continuous requirements of the accumulation process'. Lindblom (1977: 175) highlighted 'the privileged position of business'; O'Donnell (1977: 28) pointed to the 'structural complicity of the state'; Bowles and Gintis (1984: 42) observed that 'the presumed sovereignty of the democratic citizenry fails in the presence of capital strike'.

The model underlying these assertions is the following. State managers may have interests and goals of their own, may act on behalf of a class, or they may be perfect agents of the public. Whatever their goals, the realization of at least some of them depends on the performance of the economy, most importantly upon income and employment. But the economy is private, at least in the sense that private property of wealth endows its owners with the legal right to decide how to allocate productive resources. Since the performance of the economy is determined by decisions of private agents, governments must always anticipate the effect of their actions upon these decisions. Specifically, governments find it in their best interest to abstain from all actions that would cause owners of capital to make decisions adverse to the performance of the economy. Thus governments representing different interests are circumscribed to the same range of actions. The people are not sovereign since governments cannot fulfill the mandates with which they are charged in elections.

Not just the state but the society as a whole is structurally dependent upon capital. The constraints imposed by private property of the means of production bind governments whether bureaucrats and politicians act in their own interest or as perfect agents of anyone else, because they bind the entire society. The reason why politicians seeking re-election must anticipate decisions of owners of capital is that these decisions affect the levels of employment, inflation, and personal income of voters: vote seeking politicians are dependent upon capital because voters are. To the extent to which material means are required to satisfy their interests, structural dependence binds all groups within a society: minorities seeking economic equality, women seeking to transform the division of labor within the household, old people seeking material security, workers seeking better working conditions, politicians seeking re-election, and military seeking bombs. It is in this sense that capitalism is a class society: not in the sense that there are always two, ready-made classes, but in the sense that the structure of property characteristic of capitalism makes everyone's material conditions dependent upon privately made decisions of owners of wealth.

Thus, the government may be a perfect agent of whatever social forces that placed it in office and yet it is forced to observe constraints originating from the private property of capital. Even if its principal were the working class, a government which is a perfect agent of workers would not behave much differently from a perfect agent of capitalists. These are the implications of structural dependence of the entire society for the dependence of the state: whether the state is controlled by autonomous managers, whether it represents interests of capitalists, or anyone else, including workers, the range of actions which the government will find best for the interests it represents is narrowly circumscribed.

The mechanisms of this dependence are numerous. They include but are not limited to: (1) dependence of governments upon taxation

and borrowing from private parties to finance government activities, (2) dependence of various categories of individuals upon decisions of firms concerning employment and level of activity, which determine the level of consumption, and (3) dependence of the entire society upon investment decisions by firms. Only the dependence through investment decisions has been analyzed formally (Przeworski 1980; Przeworski and Wallerstein 1982); perhaps other mechanisms seem more obvious (see Lindblom 1977, for a description).

One controversial issue concerns the exclusive emphasis on capital. In a capitalist society, in which division of labor is highly advanced and production is oriented toward exchange, that is, needs of others, everyone is interdependent and almost everyone can impose losses upon the rest. Furthermore, workers are often organized collectively and they can withdraw labor services if their interests are threatened. Why then limit economic constraints upon popular sovereignty to dependence upon capital? Is not the difference between capital and labor at most a matter of degree? (see Musgrave 1980). The standard answer is twofold. First, it is true that everyone is interdependent and several groups can impose costs upon others. For example, workers in industries which provide input to many other industries have a higher striking power than workers in industries downstream. Secondly, however, workers can withhold their labor services only as long as their personal and organizational savings permit. Owners of capital, in contrast, can continue to receive income from property as they invest elsewhere or cease reinvesting altogether. Hence the threats posed by capital and labor are not symmetric (Lindblom 1977 176; also Bowles and Gintis (Chapter 2; Offe 1985).

The second issue, to which we return below at some length, concerns the powers of owners of capital. According to the neo-classical economic theory, in a perfect market the decisions made by profit maximizing investors respond to the preferences of consumers concerning the atemporal and intertemporal allocation of resources. Thus, in pursuit of their own profit, owners of capital maximize everyone's satisfaction. Ownership of wealth is not a source of any public power. But the preferences to which markets respond are weighted by the resources each individual controls: market solutions are always specific to the particular distribution of income and wealth. Endowed with equal voting rights people may express through the democratic process a collective preference for an allocation of resources other than that which would be generated by the market. Thus, the issue of sovereignty arises in the context of the relation between the market and the political system. The public power of capital is the power to prevent some allocations of resources that are preferred by citizens (13).

The hypothesis of structural dependence can be evaluated in three ways. One method is to examine differences in policy outcomes generated by governments with varying partisan orientations. If such governments pursue different policies and these policies have consequences, then the hypothesis of structural dependence is false. Unfortunately, while there is much evidence that some policy outcomes do vary with partisan orientations of governments, these findings cast little light on the issue of structural limits to which these governments may be subjected, since we do not know whether these observed differences exhaust the realm of possibility. (The classical study was Hibbs 1977; this literature is now extensive; see Cameron 1984; Castles 1982, Maravall 1979; Schmidt 1982; Shalev 1983 for reviews). The second method is to examine the limiting cases: the experience of governments which came into office with programs of major social transformations, in particular, programs of simultaneous nationalization of some industries and re-distribution of income (Kolm 1977 is a theoretically motivated comparative study). All such governments either compromised their original program, including total reversals such as the one committed by the French Socialists, or were overthrown by force, as was the government of Unidad Popular in Chile. Yet again, these experiences cannot speak to the issue of limits and possibilities: one can always cite some counterfactual courses of action which would have avoided the disasters. The issue concerns possibility and possibilities cannot be determined on the basis of limited historical experience. Hence, finally, the appropriate method to evaluate the hypothesis of structural dependence is to make use of models as instruments for analyzing the range of possibilities inherent in the combination of democracy and capitalism.

(13) This is not the only public power resulting from private property of capital. Bowles and Gintis (1984, chapter 2) demonstrated recently that private ownership of capital is a source of private power at the point of production and that the consequences of this power hold even in equilibrium. Thus, contrary to Roemer (1982), domination at the point of production is not merely a consequence of the impossibility of writing a perfect labor contract but it is a necessary consequence of property relations.

2. *Unresolved issues*

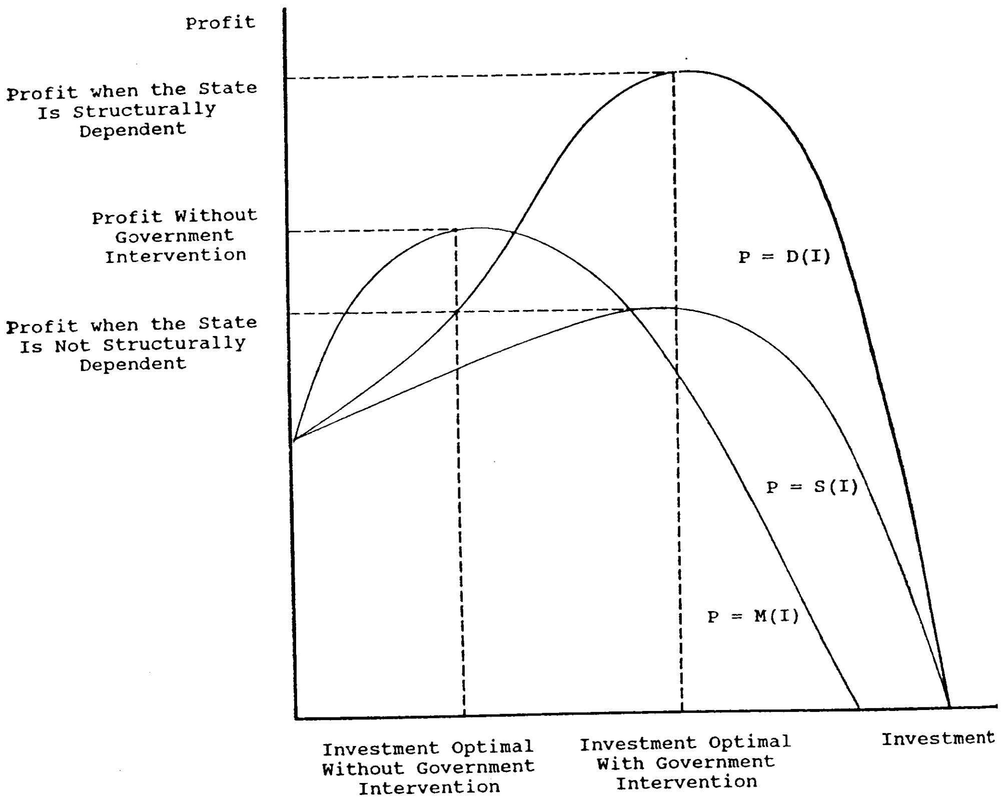
People would be sovereign with regard to private property if the following three theorems were true simultaneously: (1) Under some suitable institutional arrangements, the state is a perfect agent of the electorate, (2) Government policies are effective, and (3) Governments representing different constituencies find it best to follow different policies. If the first theorem were false, the state would be autonomous; if the second were false, the state would be impotent (14); if the first two theorems are true and the last one false, the society is structurally dependent upon capital.

Since the issue of state autonomy has been discussed above and since Miller and Moe have shown that there exist institutional arrangements under which both bureaucrats and legislators are forced to behave as perfect agents of the electorate, we assume for the purposes of the subsequent analysis that they do.

The central issue which will be examined is whether governments can simultaneously influence private investment and distribute income. This is a particular version of the classical issue of the 'big trade-off' between efficiency and equality (Okun 1975). The following figure may help elucidate the question. Suppose that under the existing market conditions (that is, without any government intervention), the function relating profits to investment is $P = M(I)$ in Figure 3: a low level of investment, given by $I(M)$ is optimal for private firms (which we assume are either numerous and homogeneous or organized into an economy-wide association) and associated with it is some level of profits $P(M)$. If no government policy can alter this level of investment and income distribution, then the government is simply ineffective. If governments can increase the level of investment only at the cost of increasing profit, as potrayed by function $P = D(I)$, then the trade-off between efficiency and equality is inexorable and popular sovereignty is circumscribed by private property: the only way any government can cause firms to invest at the level $I(G)$ is to increase profits to the level $P(D)$. The state is not structurally dependent upon capital if there exist policies that would generate a function such as $P = S(I)$, that is, if investment can be increased to the level $I(G)$ without shifting income in favor of profits and, conversely, if income can be shifted away from profits, to the level $P(S)$, without causing a fall in investment.

(14) The validity of the second theorem has been discussed in various contexts, principally with regard to the issue whether governments can effectively manage aggregate demand given rational expectations by private economic agents (Lucas 1976).

FIGURE 3



The question is thus twofold: (*a*) Can governments find policy instruments that would permit them to influence the rate of private investment independently from distribution of income and (*b*) Would governments representing different interests opt for different policies in pursuit of these interests?

In the light of the neo-liberal views discussed above, the ability of any government to distribute income away from profits is limited by the deadweight losses that would result from a fall in investment. The neo-liberal claim is that increased taxation increases the cost

of capital and thus decreases the optimal level of capital stock, causing a fall in investment, and losses in efficiency. Investment is thus considered to depend upon tax rates. The issue is complex and what follows is intended merely to indicate that this argument may be false and governments may be able to distribute income without causing a fall in investment.

First, there is empirical evidence which shows that tax rates are not related to investment and growth, while they are related to the distribution of income. (Most systematic evidence was provided by Katz, Mahler, and Franz 1983, with regard to the OECD countries). Indeed, the 'supply-side' hypothesis fares badly in empirical confrontations: even a study commissioned by the New York Stock Exchange (1981) did not find evidence to support it.

Secondly, according to a formal framework based on neo-classical assumption deadweight losses need not occur even if profits are taxed. (See Auerbach 1983, for a recent formulation). To understand this framework, we need to pause to describe possible tax systems. Suppose that a tax regime consists of a nominal rate imposed on net (post-wage and other input costs) revenue and a credit applied to investment. Thus, the effective tax paid by any firm is the difference between the tax on revenues and the relief accruing to investment. Now, the central result emerging from this formulation is that a tax which is effectively applied only to consumption out of profits does not affect the rate of investment, regardless of the rate of taxation. In other terms, if the rate of investment relief is the same as the rate of nominal taxation, so that only uninvested profit is subject to effective taxation, then profit maximizing firms will invest at the rate that would be optimal for them under pure market conditions regardless of the rate at which consumption out of profits is taxed (15).

Przeworski and Wallerstein (1985) asked further whether a government could choose an investment target different from the one firms would find optimal under market conditions and simultaneously distribute income away from profits. They found that within some bounds governments can indeed simultaneously induce a larger amount of capital formation and increase taxes collected from profits. They concluded that a high rate of tax on profit together with high rates of investment tax relief can be as effective in inducing a rapid

(15) Thus empirical results of Katz, Mahler and Franz (1983) are not in contradiction with the empirical studies by economists (Jorgenson 1967; Bischoff 1971; Almon and Barabera 1980; Hendershott and Hu 1981) who conclude that the rate of taxation of profits and the rate of tax relief for investment do affect the rate of investment.

rate of investment as a low rate of tax on profit, and the former will yield substantially higher tax revenues. Moreover, the same results can be reproduced in the theoretical context of economic growth. In sum, theoretical analysis leads to the conclusion that governments can regulate investment and income distribution independently within relatively broad limits (16).

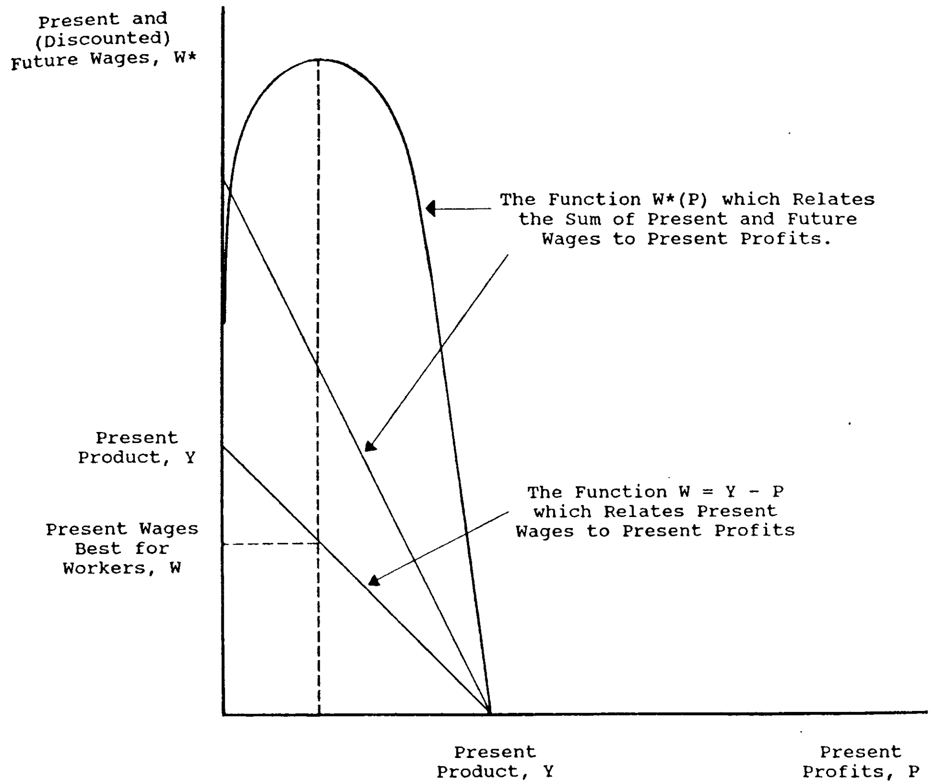
All these are, however, partial results in that they do not consider the behavior of wages. They are derived from the following framework: the government announces a tax schedule, firms respond to the schedule as they maximize profits, while wages are fixed exogeneously and remain unaffected by the decisions of the government and of firms. The question which remains open, therefore, is whether these results would hold in a more general framework in which wage levels would depend upon decisions of organized workers and thus wages might change with taxes. Strategies of labor become relevant for the following reason: without government intervention, unions must anticipate the effect of their economic militancy (which we assume to result in higher wage levels) upon investment (17). But if government policy induces firms to invest through tax incentives, this particular barrier to wage militancy is weakened and unions can push their demands until investment falls nevertheless, in response to higher wages. Thus, the question is whether the final outcome is ultimately not the same: without government policy firms choose some ('market') rate of investment and unions moderate wage militancy under the threat that this rate would fall, while with government intervention unions become militant causing firms not to increase investment beyond the market rate even in the presence of tax incentives.

Let us examine labor-capital relations without any government policy (see Przeworski and Wallerstein 1982). In Figure 4, the straight line with a slope of — 1, W = Y —P, represents all possible allocations of the national product between wages and profits at any

(16) These results may be in many ways too strong. There is a burgeoning body of literature that investigates the loss of efficiency involved in the inter-sectoral effects of tax incentives and the possibility of finding tax schedules that would be neutral in their allocational effects across sectors. (See King and Fullerton 1984, for the argument that inefficiency results from the variance of effective tax rates on different kinds of investment). Perhaps more importantly, we have not considered the possibility of firms being able to choose among tax regimes of different countries, with the Pandora's box this issue opens. (For comparisons of the relevant tax regimes and their effects on investment see Bracewell-Milnes 1980; OECD, 1983*b* and 1984).

(17) Obviously, the first concern of unions and the first reason for moderation is the fear of unemployment, but we are considering here only investment decisions and the intertemporal trade-offs involved.

FIGURE 4



particular instant of time, when the product Y is fixed (the distance of this line from the origin measures the size of the product). Along this line there is a zero-sum relation between wages and profits: whenever wages increase, profits fall, and vice versa. Now examine the second straight line, in which wages are measured as th esum of present wages and the wages workers expect to receive in some discounted future, W*. If this line still slopes monotonically downwards, that is, the sum of present and future wages (or more precisely their present value) is smaller when present profit is larger, then workers are best off by being maximally militant economically. But if workers' future wages depend upon present investment and present investment depends upon present profits, then it is possible that the function which relates present and future wages to presents profits, the function W* (P), has a maximum at some positive level of present profits. The level of present wages that corresponds to the level of present profits that maximizes the sum of present and future wages, call it W, is thus lower than the present product: hence workers concerned about the future will in this case offer wage restraint.

Whether the function W*(P) has an internal maximum depends among other factors upon the function that relates the rate of investment to profits (see Figure 3). Now, without government intervention, firms decrease investment in response to increases in wage costs. With tax incentives, the responsiveness of investment to profits and thus indirectly to wages is lower; hence workers can be more militant, perhaps until they bring investment to the same level that was best for them without government intervention. Whether governments can regulate investment and income distribution independently when both firms and unions behave strategically remains to be examined.

This is the context in which one should investigate the second and the central question, namely, to what extent governments with different goals, including different partisan orientations and presumably different popular mandates, would find it in their best interest to choose different policies. One can show that governments which seek only to redistribute income would choose policies favoring their constituents and that these policies alter the rate of investment but in a way which is independent of the government's objectives. But wo do not yet know whether governments which are concerned about future consumption and thus investment would still choose different policies and generate different outcomes. This central aspect of the question of structural dependence of the society upon capital remains open.

5. *Conclusions*

None among the reviewed arguments is conclusive. The democratic process certainly suffers from many imperfections but the neo-liberal conclusion—that the market is superior as the institution through which the people express their sovereignty—is theoretically and empirically deficient. This conclusion is based on comparisons of democracy as it exists with blueprints of perfect markets. One can easily play the inverse game: compare capitalist economies as

they are with blueprints of democracy in the political and economic realm. Thus, while neo-liberals and socialists are likely to agree that presently existing democratic institutions in several ways limit popular sovereignty, there are ample grounds to continue to disagree about political solutions.

The fear of the autonomous state—the military, the bureaucracy, and even the legislature—is certainly well grounded in the contemporary experience. Yet the grounds to believe that the central threat of state autonomy consists of overspending bureaucracy are rather weak. Theories of autonomous bureaus under democracy are logically incomplete and empirically tenuous, while systematic arguments can be adduced to demonstrate that neither the autonomy of bureaucracies nor of legislatures is inevitable.

Finally, there are strong theoretical and historical bases for the presumption that private property, particularly of the instruments of production, severely limits the freedom of societies to allocate resources. The recent calls for reductions of government spending, taxes, and regulation to spur investment and job creation provide obtrusive evidence. Yet the limits of possibility cannot be judged from historical experiences alone and theoretical analyses are still inconclusive.

Even if several questions remain open with regard to each of the potential impediments to popular sovereignty, it might be tempting to compare their relative gravity. This is what much of the contemporary debate is about: the issue whether the government or private property is the cause of economic crises continues to obtain divergent answers. Yet we fear that comparisons of the relative weight of each limitation of popular sovereignty are methodologically unfeasible (18). We also believe that such comparisons may lead into some political traps.

A perhaps obvious trap is to suppose that because one limitation of popular sovereignty is onerous others must be taken more lightly. Even if private property is the most binding limitation of citizen sovereignty under capitalism, the threats originating from state autonomy and from those limitations of the democratic process that are not related to private property are nevertheless real. Imperfections of the democratic process, autonomy of state institutions, and private

(18) The way to proceed would be to study a model with citizens, bureaucrats and legislators, in an economy consisting of households, firms, and unions, and a political system with a support market. It we assume that all, or even some among these actors are strategic with regard to each other, there are good reasons to expect that this model would quickly become too complex to be enlightening.

property of productive resources all constitute potential threats to popular sovereignty. One trap is to fall into a defense of state intervention in the economy at any cost, even at the cost of autonomous and inefficient state institutions.

The other trap is to dismiss limitations originating from private property altogether: a new fashion among leftist intellectuals. The standard argument runs as follows: (1) The 'class nature' of the capitalist state is not a given, (2) The Left has traditionally underestimated, if not ignored, the importance of democratic institutions, therefore, (3) The real limitations of popular sovereignty lie in imperfections of the democratic process. Once the importance of democracy is discovered, we return unhampered to the eighteenth century. Democracy appears in the context of liberty, contract, and institutions; representation is already a 'transformation' of the ideal. The conclusion, about which there would be little controversy, is that 'it is unlikely that a non-liberal state would be able to assure a correct functioning of democracy and, on the other hand, it is unlikely that a non-democratic state could guarantee the fundamental liberties'. (Bobbio 1984: 7). The urgent issue for the political agenda is thus to strengthen democratic institutions. The panacea is 'democratic participation'.

Questions of representation, legality, procedure, and responsibility have been indeed traditionally neglected and even perhaps rejected by various currents on the Left. The traditional posture has been to maintain that, on the one hand, under capitalism democracy is at best one among several instruments of struggle for socialism while, on the other hand, nationalization of the means of production would automatically solve all kinds of problems, including problems resulting from conflicts of interests and thus politics. (See Birnbaum 1979, for this point). It is thus not an accident that much of the new analysis originates from Argentina and Chile, where the question of democracy has been made central by the tragic experiences of authoritarian regimes.

Yet this position is much too facile, for the central question that is being ignored is whether it is likely that citizens would be able to enjoy basic material security in the liberal democratic state. At least up to now there are no persuasive reasons to reject the central assumption of the orthodox Marxist position, namely, that private property of the means of production constitutes an effective constraint on feasible allocations of resources and thus a limitation of popular sovereignty. We are not claiming that this assumption has been shown to be true: our study is largely motivated by the belief that

both theoretical analyses and the historical experience are thus far inconclusive. But the presumption is strong: it is strong because daily experience demonstrates that liberty and democracy can and do coexist with poverty and oppression. To discuss democracy without considering the society in which this democracy is to function is an operation worthy of an ostrich.

We believe, therefore, that questions of democracy must be faced in their full context, abandoning the possibility neither of state autonomy nor of class character of the capitalist state. The traditional dilemma facing the Left originated from the eventuality that even a procedurally satisfactory democracy may be insufficient to liquidate poverty and oppression in the face of threats originating both from state autonomy and from private property. This dilemma is as acute today as ever before. Sovereignty entails citizens who are competent, a state that is responsible, and mechanisms for allocating resources that respond to the democratic process, nothing less * (19).

* Earlier versions of this paper were presented at the Workshop on Political Practice and the Reconstruction of Democratic Theory, Istituto Universitario Europeo, Firenze, May 20-24, 1985, the Annual Workshop on Analytical Marxism, London, September 19-21, 1985, and the Conference on Crisis and State Regulation: Dilemmas of Policy in Latin America and Western Europe, EURAL, Buenos Aires, October 14-16, 1985. We should like to thank participants in these meetings for their comments.

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(19) Obviously, the same criteria should be applied to forms of societal organization other than democratic capitalism. Most likely, public ownership of alienable productive resources would enhance the collective capacity to allocate resources to democratically preferred uses. In this sense, 'socialism' would increase popular sovereignty. Nevertheless, different combinations of property rights (to alienable and inalienable resources) with different allocation mechanisms (decentralized versus centralized, competitive versus cooperative) would each generate some specific limitations of popular sovereignty in allocating resources. Moreover, questions of adequate institutional arrangements for revealing and aggregating preferences as well as for assuring accountability would become even more urgent in the absence of private ownership of capital.

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