default risks across the globe. The most common policy response has been to move towards centralization and away from federalism. This centralization response is especially frequent in Europe, both in the European Union and in specific countries (for instance, Germany and Spain). In contrast to this "centralization trend," the main policy proposal of the book for the current fiscal instability of many local governments around the world is to preserve and reinforce competitive federalism. This latter term is mainly defined in the second and third chapters of the book as a federalist system characterized by fiscally disciplinary, market-based forces combined with a commitment from the upper layers of governments not to bail out lower layers.

While the policy proposal is plausible, there are many challenges in its practical implementation, such as political and legal ones. From the political perspective, it may obviously be hard for national governments to not bail out subnational governments ex post, no matter how credible the commitment is. From the legal perspective, as noted by Rodden in the third chapter, the rules of subnational defaults are often not clearly specified for market actors, hence, the risk of default increases even more the uncertainty of public creditors.

Another challenge for competitive federalism is the potential lack of budget transparency. This is the main topic of the fourth and fifth chapters, which deal with public pension plans, and of the sixth chapter, which deals with high-risk investments by subnational governments. Unfunded pension and health care obligations have had an important role in the recent bankruptcies of several U.S. municipalities, and the size of these unfunded liabilities is highly dependent on the assumptions made when estimating them. In the sixth chapter, Shoag emphasizes how U.S. subnational governments rely on risky investments to finance themselves and how this can increase the frequency of bankruptcies in the future. Engaging in risky financial investments is not peculiar to U.S. subnational governments: for instance, several Italian cities signed complex derivatives contracts, whose effect on public accounts was delayed over time and often generated lawsuits between local governments and investment banks (Bloomberg 2009).

Two important topics that would have probably deserved more attention are individual mobility and fiscal rules. First, making individual mobility easier may be, in my opinion, a policy that may increase competitive pressure on subnational governments. Consistent with this point, I believe the lack of individual mobility within the European Union is one of the reasons that competitive federalism may be difficult to quickly achieve among the EU countries. Second, fiscal rules are laws designed to increase the incentives for fiscal discipline and are increasingly common across the globe, especially when imposed by national governments on subnational ones.

In spite of all of the aforementioned challenges, competitive federalism has survived for many decades in the United States, as Rodden argues in the third chapter, and still survives in Canada, as Simeon, Pearce, and Nugent argue in the last chapter of the book. In this last chapter, the authors try to identify the reasons that explain the success of a competitive federalist system. Although such an identification process is hard, the authors argue that the strength of legal and political institutions can have an important role, by making coordination among different layers of government easy and by facilitating compromises across different preferences on the level of government interventions in the economy.

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H Public Economics

Tax Systems. By Joel Slemrod and Christian Gillitzer. Zeuthen Lecture Book Series. Cambridge and London: MIT Press, 2014. Pp. x, 223. $30.00. ISBN 978–0–262–02672–7.
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Tax policy has been central to economists' raison d'être since they first evolved from moral philosophers. Our core theories of taxation—pioneered by Frank P. Ramsey, Arnold C. Harberger, James Mirrlees, and others—provide deep economic insights involving incidence, excess burden, and optimal rate structures, which balance objectives of equity and efficiency. Yet, if one were to ask most ordinary citizens what they think of the "excess burden" of taxes, they would evoke painful tax forms and audits, and look puzzlingly at our odd triangles. If asked how they might respond to taxes, many would bring up various avoidance "loopholes," rather than how much to work and save. Economists' core theories also do little to enlighten tax experts in other fields—such as law, accounting, or administration—interested in issues like how to define tax bases, relay tax information, and enforce compliance. Moreover, the core theories do not predict existing tax structures with features such as low, flat-rate taxes on consumption. They do even worse with past structures, which included particular taxes on salt, chimneys, and windows.

Unbeknownst to many, economists have extended economic reasoning to a much wider array of tax issues for decades. Perhaps best known is the work of Michael Allingham and Agnar Sandmo, who applied Becker's theory of amoral criminal behavior to tax avoidance, pointing out that imperfect enforcement adds a hidden welfare cost to taxes through uncertainty. Yet, not until *Tax Systems* have hard-won insights on these broader issues been synthesized succinctly and rigorously in a far-reaching monograph. There is no more qualified author than Joel Slemrod. He has spent over thirty-five years working on these issues, trained legions of tax economists, gained tremendous respect from tax experts across disciplines, and personally authored or coauthored over fifty of the 350 articles and books covered in *Tax Systems*. The notes of his intellectually rich graduate course on taxation provided the backbone of this book. Faced with many other pressing duties, Slemrod enlisted one of his best students, Christian Gillitzer, to coauthor this text.

After explaining its purpose, the book briefly reviews a succinct form of optimal tax theory, helpful for later chapters. It nicely generalizes how differentiated optimal tax rates equally balance "behavioral" and "mechanical" (i.e., revenue-raising) responses across rates.

The second section discusses less standard components of tax systems, starting with alternative behavioral responses. Taxpayers may illegally evade taxes by underreporting income and risking punishment, or legally avoid taxes through costly sheltering efforts that otherwise do not affect consumption (except through income effects). The next chapter explains administrative and compliance costs, responsible for an entire industry of tax preparers and much of the public's distaste for the tax code. In a discursive but informative chapter, the authors consider multiple nonstandard tax instruments, such as withholding, and information collection and distribution. A take-away from this section is that the things governments tax may be rather different from the things taxpayers ultimately care about. One consequence is that workers may respond to a tax cut very differently than to a wage hike of the same nominal value, violating a common restriction made in theoretical and applied work.

The third section puts these nonstandard instruments and elements together into a generalized "optimal tax systems" model. The upshot is that nonstandard instruments, however difficult they may be to quantify, should balance behavioral and mechanical responses in the same way as tax rates. These formulae must also factor in marginal changes in administrative and compliance costs, with the former being more onerous, as they are paid out of tax revenues. The rest of the section covers optimal tax bases and endogenous elasticities. An important point for optimal taxation is that those who appear poor on their tax returns may just have better avoidance opportunities, or be prone to measurement problems, blunting the case for redistributive taxation.

The authors dispel numerous myths about tax systems, including the so-called "remittance invariance theorem." In real-world tax systems, how tax payments (and information) are remitted does influence revenue collection and the after-tax prices faced by buyers and sellers. When England first made firms remit income taxes during the Napoleonic Wars, it doubled revenues, possibly changing the course of world history.

Milton Friedman expressed regret for irreversibly "ratcheting" up the size of the U.S. government by setting up its remittance infrastructure during World War II. Remittance and third-party reporting also explains why self-employed workers report spending over a third more of their ostensible incomes on food and charity than other workers with the same purported income; it has little to do with hunger or charity. These and many other issues should help the reader to realize that the general theory of tax systems is not small potatoes.

The book's coverage is broad yet concise, its writing is well-crafted and edited, and its discussions are lively and informed. We learn on page 106 that informative mailings "with a simplified layout and less repetition" get better responses from readers. The same is true for books, and this one is not completely free of first-edition imperfections. The book could be made even more readable through some minor reorganization and streamlining, particularly with the formal models. I thoroughly enjoyed the chapter on the tax base elasticity, which explains how both standard and nonstandard responses to taxes contribute equally on the margin to the excess burden of taxation. Yet, I was unsure why this chapter was sandwiched in the second section, as the third of four chapters. It contained formal results on tax-evasion engendered risk that might have belonged two chapters earlier.

The book is not short on mathematical models, and is best read by those with formal graduate training in economics. Not much background in public finance is required. It could be used as a standalone textbook, although if I were to teach a semester-long course on taxation, I would complement it with Bernard Salanie's *Economics of Taxation.*

Every public economist should learn the lessons covered by *Tax Systems.* These lessons would also be very useful to development economists and economic historians trying to make sense of the public sector, or to any economist trying to make sense of noneconomists' reactions to Tax Day. Reading Slemrod and Gillitzer's book may just be the most efficient, and possibly equitable, way to learn those lessons.

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K Law and Economics

Reflections on Judging. By Richard A. Posner. Cambridge and London: Harvard University Press, 2013. Pp. ix, 380. $29.95. ISBN 978–0–674–72508–9. *JEL 2014–0188*

Among economists, Richard Posner is best known as a member of the Chicago School and a founding father of Law and Economics. Posner is a prolific scholar. He has written or edited more than forty books and authored more than four hundred articles. He is the most cited legal scholar of all time (Shapiro 2000b), and his seminal treatise *Economic Analysis of Law*, first published in 1973 and now in its ninth edition (Posner 2014), is among the most cited legal texts published in recent decades (Shapiro 2000a).

Posner has amazingly done much of his academic writing "on the side." Since 1981, his day job has been as a federal judge on the U.S. Court of Appeals for the Seventh Circuit. Posner has been equally productive as a federal appellate judge. By his own account, Posner has heard oral argument in more than six thousand cases, read many more than fifteen thousand briefs, and written more than 2,800 published judicial opinions (p. 2).

In his most recent book, *Reflections on Judging*, Posner reflects on his experience as a federal appellate judge. Posner offers his (strong) opinions on a litany of subjects, including how appellate judges should decide cases, write opinions, and manage their staffs; how appellate lawyers should brief and argue cases; how to improve the trial process in the federal courts; and how federal judges should be selected and trained.

For the most part, Posner's reflections amount to a critique of the federal judiciary. Posner's main concern is that federal judges are not coping well with the increasing complexity of federal cases, the primary sources of which are external to the law and the legal system (e.g., scientific and technological progress). Rather than taking a pragmatic, realist approach to judging and grappling head-on with the challenge of rising external complexity, Posner bewails, many judges retreat to legal formalism and obfuscate their avoidance by needlessly complicating the law and the legal process. "They escape from [external] complexity into [internal] complexity" (p. 14).