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# Fiscal pessimism in historical perspective: Tocqueville revisited

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This paper explores Alexis de Tocqueville's thought on fiscal political economy as a forerunner of the modern school of preference falsification and rational irrationality. Although he initially shared the cautious optimism of most Classical economists with respect to taxes under extended suffrage, Tocqueville's view turned more pessimistic in the second volume of his *Democracy in America*. Universal enfranchisement and democratic governments would lead to higher taxes, more intense income redistribution and government control. Under democracy, the continuous search for unconditional equality would eventually jeopardized liberty and economic growth.

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Fiscal pessimism in historical perspective:  
Tocqueville revisited.

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## Introduction

More than two decades ago Alan Peacock acknowledged that “the search for some all embracing economic theory of public expenditure growth is now generally recognized as a quimera.”<sup>1</sup> In effect, we still lack a definitive solution to the problems of fiscal political economy and the limits of fiscal capacity faced by modern democracies, but, although an all embracing explanation remains elusive, advances in our knowledge of the intellectual roots of fiscal thought will enhance our understanding of collective preferences at the time of income redistribution through government intervention, and will surely ease the way towards a reasonable solution of the current fiscal crisis that blocks our economic growth. Continuous reference to Alexis de Tocqueville's predictions about the future of democracy, equality and redistribution have established his work—especially *Democracy in America*—as a reference point for the study of fiscal political economy. As a privileged witness of the revolutionary change from *aristocracy* to egalitarian *democracy*, Tocqueville's ideas on the extension of the franchise could serve as guidance to the equally revolutionary expansion of present day *social rights and entitlements*, public expenditure and progressive taxes. Despite controversy, a consensus exists that, in the Ricardian tradition, Alexis de Tocqueville viewed the future of democracy as protected against the advances of excessive tax increases and income redistribution by the moderating effects of the extension of private property and the increase of *general prosperity*. In the words of L.L.Wade, “Tocqueville's central thesis—that the fisc in democracy will be managed responsibly

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<sup>1</sup> A. Peacock, Public Choice in Historical Perspective, New York: Cambridge University Press, 1992, p. 54.

only when the franchise is dominated by a property-owning and interest-maximizing middle class—remains an important and secure postulate".<sup>2</sup>

Nevertheless, as is the case with many other aspects of Tocqueville's opinions on political economy, his views on the relationship between democracy's progress and the tax burden were complex and contradictory at times. In the much more philosophical second volume of his *Democracy in America*, his reflections on individual behavior and cultural traits lend themselves to a modern analysis of voters' preference changes and apparent irrationality. Specifically, Tocqueville's reflections on the influence of *moers* on aggregate political behavior casts doubt on the alleged Tocquevillian optimism on the future of taxes and government growth as democracy—the franchise in his times, *social rights* in ours—advances. The rest of this essay deals, first, with Alan Peacock's interpretation of Tocquevillian optimism on the future of democratic fiscal policy, which Peacock termed as the "Tocqueville's Cross". The third part of the paper describes the critiques to the Ricardian tradition of fiscal optimism under a democratic regime with extended franchise. In the fourth place, there follows an analysis of the changes in voters' preferences and their influence on economic growth and income redistribution through taxes and government expenditure. In particular this section focuses on cultural changes, as the ones analyzed by Alexis de Tocqueville in his *Democracy in America's* second volume and the new developments in the theory of "preference falsification". And finally, a brief section summarizes and concludes.

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<sup>2</sup> L.L. Wade, "Tocqueville and Public Choice", *Public Choice*, 47, September 1985, p. 505.

Tocqueville's apparently Ricardian  
view on taxation under democracy

Classical economic thinking had seldom implied political liberalism. Free and open markets implied *economic* enfranchisement, but *political* enfranchisement was entirely another matter: "the psychology of the classical economists dictated the exclusion of the poor from the franchise, because the natural covetousness of the poor would bring social disorder if allowed to express itself politically."<sup>3</sup> The main reason for excluding the poor from voting—the lack of possession of property—had been explained by James Mill in his "Essay on Government" (1820) and the classical economists seldom questioned this principle. However, their hope on the possibility of progress for all led them to believe that the moral improvement associated to material prosperity will tame the desire for high taxes and redistribution. From David Hume, to Adam Smith, John Ramsey McCulloch, and John Stuart Mill, all believed that perhaps the extension of voting rights could be compatible in the near future with an economic system based on private property.<sup>4</sup> David Ricardo's assertion that the extension of the franchise "would be the means of so rapidly increasing the knowledge and intelligence of the public"<sup>5</sup>

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<sup>3</sup> W. D. Grampp, "On the Politics of Classical Economists", The Quarterly Journal of Economics, Vol. 62, No. 5 (Nov., 1948), pp. 714-747, and T.W. Hutchison, Markets and the Franchise. A Review of the Relationships between Economic and Political Choice, London: Institute of Economic Affairs, 1966, pp. 7-16.

<sup>4</sup> Ibid. pp. 739-745. Also see, Donald Winch, Adam Smith's Politics. An Essay in Historiographic Revision. Cambridge: Cambridge University Press, 1979, pp. 84-85.

<sup>5</sup> David Ricardo, Works and Correspondence, (edited by Piero Sraffa, vol. V, "Speeches and Evidence") cited in Alan Peacock, Public Choice in Historical Perspective, p. 43.

suggested that enfranchising ever larger population's segments would be a secure way for social stability without greatly jeopardizing the property of those that paid taxes. Alexis de Tocqueville apparently shared this optimism and deepened the analysis of possible future fiscal harmony under democracy. In addition to the educational effects of democracy, he found in the trend toward income equality another argument for the extension of enfranchisement without jeopardizing the economy's fiscal capacity. His optimism on the beneficial effects of the extension of property included a profound change in the attitude and hopes of the poor. In his *Second Report on Pauperism* he questioned: "as soon as they own a small patch of land, even a very small one, don't you notice how their ideas change and their customs are modified? Is it not obvious that together with property they acquire the hope in the future?"<sup>6</sup>

Alan S. Kahan also points out to Tocqueville's initial optimism: "Tocqueville adopts the more optimistic perspective found in Montesquieu, Smith and Say. For Rousseau, inequality inevitably grows ever greater. Tocqueville modified Rousseau's account with a depiction of equality at the end of the story"<sup>7</sup> This is exactly what Alan Peacock

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<sup>6</sup> [Ce sont les prolétaires, ceux qui n'ont sous le soleil d'autres propriétés que celle de leurs bras. A mesure que ces mêmes hommes viennent à posséder une portion quelconque du sol, quelque petite qu'elle soit, n'apercevez-vous pas que leurs idées se modifient et que leurs habitudes changent ? N'est-il pas visible qu'avec la propriété foncière la pensée de l'avenir leur arrive ?] Alexis de Tocqueville, Second Mémoire sur le Pauperism, 1835, in <http://dx.doi.org/doi:10.1522/24850019>. The "magic of property" was not a new idea in Tocqueville's times. The English agricultural economist and reformer Arthur Young had written in his Travels in France (1792): "Give a man the secure possession of a bleak rock, and he will turn it into a garden; give him a nine years' lease of a garden, and he will convert it into a desert. . . . The magic of property turns sand into gold."(<<http://www.britannica.com/EBchecked/topic/653921/Arthur-Young>>.)

<sup>7</sup> A. S. Kahan, Alexis de Tocqueville. Major Conservative and Libertarian Thinkers, New York and London: Continuum, 2010, p. 92.

described in his "Tocqueville's Cross" three decades ago.<sup>8</sup> (see appendix ). In Peacock's model, the level of taxation (as a percentage of GNP) is made to depend on the percentage of enfranchised population. With a given extension of the suffrage and a given distribution of income, we can identify the median-voter income that, in turn, determines the amount of taxes over total product. An extension of the suffrage would increase the number of voters below median income, and consequently, the levels of taxes over GNP as well. However, Peacock's interpretation of the Tocquevilian view includes a limit (such as *LM* in appendix) to the growth of taxes and public expenditure. As the suffrage extends, taxes and expenditure would rise. Redistribution would increase as poorer voters are enfranchised, but Peacock seems to imply that sooner or later they will come to realize that further demands will jeopardize the economy's fiscal capacity, and consequently, its growth and stability. New voters' moderation could stem from the extension of property and their realization that as taxes grow, they also will be included within the taxable population. It could also be that the drop in total output associated with higher taxation would discourage redistribution as public revenues decrease (the possibility of an increase in public indebtedness is not considered here), or that a fall in productivity or in labor force participation (which tend to decrease mean income relative to the income of the median voter) could reduce further pressure to increase taxes.

The historical experience with the extension of the franchise, however, seems to point rather in the opposite direction: in OECD countries today, tax rates as a share of GDP are between 20-40%. By contrast, preindustrial societies rarely succeeded in taxing

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<sup>8</sup> A. Peacock, "Reducing Government Expenditure Growth: a British View", in Herbert Giersch (ed), Reassessing the Role of Government in the Mixed Economy, Tübingen: Mohr (Paul Siebeck), 1983, pp. 1-24.

more than 5% of GDP.<sup>9</sup> The extension of the vote has translated into increases of T/GNP for long periods of time, and, the current pressure for *social rights* and *entitlements* has led policy makers to even higher taxes, public expenditure and debt during long periods of time. Economic growth, for example, could induce a change in income distribution *a la Kuznets* with a drop in median income; voters could discover the “magic” of translating the tax burden to future generations through government indebtedness, or they could choose to increase spending in health, retirement, and other social security programs as an insurance against future income changes. Alternatively, growth in income and equality could propitiate the formation of pressure groups that push for income redistribution in their favor with the aggregate result of higher taxation and government expenditure. As Sam Peltzman pointed out, contrary to intuition, “the *leveling* of income differences across a large part of the population—the growth of the “middle class”—has in fact been a major source of the growth of government in the developed world over the last fifty years.”<sup>10</sup> In sum, the relationship between democracy and redistribution could be one like the function FT’ (see appendix) instead of the more optimistic FT suggested by Peacock.

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<sup>9</sup> A. H. Meltzer and S. F. Richard, “Tests of a rational theory of the size of government”, Public Choice, 41, 1983, pp. 403-418; T. S. Aidt and P. S. Jensen “Tax structure, size of government, and the extension of the voting franchise in Western Europe, 1860-1938”, Int. Tax Public Finance, 16, 2009, pp. 362-394; T.S. Aidt, J. Dutta, and E. Loukoianova, “Democracy comes to Europe: Franchise extension and fiscal outcomes, 1830-1938”, European Economic Review, 50, 2006, pp. 249-283, and K. Kivanc and S. Pamuk, “Different Paths to the Modern State in Europe: The Interaction between Warfare, Economic Structure and Political Regime,” American Political Science Review, 2013, 107 (3), pp. 603–626.

<sup>10</sup> S. Peltzman, “The Growth of Government”, The Journal of Law and Economics, 23, Oct. 1980, p. 285.

A more realistic view of fiscal demands under democracy:  
the role of culture and preferences

Tocqueville's initial optimism on fiscal matters under democracy seems, at best, to need a second view. He certainly believed in the extension of property's civilizing effects,<sup>11</sup> but he immediately recognized that the demand for redistribution by the new voters could be fueled by the fact that under democracy "they notice a mass of hitherto unfelt wants which cannot be satisfied without recourse to the resources of the state. For that reason public expenditure increases with civilization, as enlightenment spreads, taxes rise."<sup>12</sup> Anticipating Adolf Wagner's law,<sup>13</sup> Tocqueville predicted that growing political influence by lower income voters would increase the demand of public goods and services, and additionally would make rulers more inclined to redistribute: "In democracies, where the sovereign power belongs to the needy, only an increase in their prosperity will win that master's good will; almost never can that be done without money."<sup>14</sup> But this is not all. He also foresaw the dynamics of tax increases implied in progressive taxation "because taxes cannot touch those who vote for them or because they are assessed in a way to prevent that. In other words, a democratic government is the only one in which those who vote for a tax can escape the obligation to pay it"<sup>15</sup> In

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<sup>11</sup> He stated in volume I of *Democracy*. : "There will be...less danger of extravagance in an increasingly property-owning democracy, both because the people will less need the wealthy's money and because it will become ever more difficult to contrive a tax which will not touch the people themselves. In this respect universal suffrage should be less dangerous in France than in England, where almost all taxable property is accumulated in but few hands. Since the great majority of American citizens possess something, that country is in a better position than France" (A. de Tocqueville, Democracy in America, Chicago: Encyclopædia Britannica, Inc., 1965 [1835], Vol. I, p. 109.)

<sup>12</sup> A. de Tocqueville, Democracy in America, cit. Vol. I, Chap. 5, sect. "Public expenses under the rule of American democracy", p. 109.

<sup>13</sup> A. Wagner published his *Finanzwissenschaft* in 1890. See Mark Leroy, "Tocqueville Pioneer of Fiscal Sociology", European Journal of Sociology, 51, 2010, pp. 195-239.

<sup>14</sup> A. de Tocqueville, Democracy in America, *ibid.*

<sup>15</sup> *Ibid.* p. 108.

addition, the democracies' reputation of fiscal frugality frequently hides a biased distribution of income:

The parsimony of democracy toward its chief functionaries has caused it to be credited with very economical inclinations, which it does not possess. It is true that democracy hardly provides its rulers with a decent living, but it spends huge sums to succor the needs or facilitate the pleasures of the people. That is a better use of taxes, not an economy. In general, democracy gives little to the rulers and much to the ruled. The opposite occurs in aristocracies, where the state's money especially benefits the class in control of affairs.<sup>16</sup>

And, finally, democracies may fail in their attempts to be frugal because they simply don't know how to do it: "There is one other, final reason which makes democratic government more expensive than others. Sometimes a democracy wishes to economize its outlay, but does not succeed in doing so, because it has not learned the art of being economical."<sup>17</sup>

It seems, therefore, that Tocqueville's general fiscal optimism was tempered when he reflected more carefully on the complexity of democracy. But Tocqueville's apparently opposing views are not so contradictory. He identified micro and macroeconomic tendencies pushing simultaneously for and against fiscal moderation as democracy and the suffrage expanded:<sup>18</sup> the "opulence" and proprietorship stimulated by a liberal political system would be an obstacle to fiscal expansion, but changes in preferences and the growing political complexity would accelerate redistribution.

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<sup>16</sup> Ibid. p. 110.

<sup>17</sup> Ibid.

<sup>18</sup> The extension of the suffrage was viewed by Tocqueville as an inexorable social law: "Once a people begins to interfere with the voting qualifications, one can be sure that sooner or later it will abolish it all together. That is one of the most invariable rules of social behavior. The further the limit of voting rights is extended, the stronger is the need felt to spread them still wider; for after each new concession the forces of democracy are strengthened, and its demands increase with its augmented power" [Ibid. Vol. I, part I, ch. 4, p. 28].

It is true that "one area that has *not* found many commentators is Tocqueville's views on economics"<sup>19</sup> yet he developed a systematic analysis of preference formation that impinges directly on the economics of political markets and fiscal attitudes. This was especially true in volume II of his *Democracy*, that appeared in 1840. Volume I had been published five years earlier. It addressed the more general problems related to the emergence of democracy, and when Tocqueville finished it he concluded: "The details of this huge picture are in shadow, but I can now see the whole and form a clear idea of it".<sup>20</sup> The *details* of his analysis were dealt with in Volume II. In the second volume<sup>21</sup> he focused on customs, mores, feelings, mentality, behavior and institutions.<sup>22</sup> Tocqueville's system of ideas appears here as framed by the inevitability of democracy's progress and the extension of rights<sup>23</sup> and the cultural revolution created by equality.<sup>24</sup> In his own words, he "should be understood as a cultural philosopher who looked to culture and institutions shaped by culture as the key to understanding political and social worlds."<sup>25</sup> Cultural patterns and sentiments—like the desire for equality, for example—conditioned economic behavior.<sup>26</sup> This is especially relevant for his analysis

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<sup>19</sup> R. Swedberg, Tocqueville's Political Economy, Princeton and Oxford: Princeton University Press, 2009, p. 1.

<sup>20</sup> A. de Tocqueville, Democracy....cit, Vol, I, p. 216 ["Conclusion"]

<sup>21</sup> The second volume was published in 1840, five years after the first one, and was divided in four sections entitled (1)"Influence of democracy on the intellectual movements of the United States"; (2)"Influence of democracy on the sentiments of the Americans"; (3)"Influence of democracy on mores properly so called"; and, (4)"On the influence of democratic ideas and feelings on political society".

<sup>22</sup> See, A. Jardin, Alexis de Tocqueville, 1805-1859, Mexico: FCE, 1984, pp. 202-222.

<sup>23</sup> F. Furet, "The Intellectual Origins of Tocqueville's Thought", The Tocqueville's Review, 7, 1985-6, p. 119 [117-129].

<sup>24</sup> A. Kaledin, "Tocqueville's Apocalypse: Culture, Politics and Freedom in Democracy in America", in L. Guellec (ed.), Tocqueville et L'Esprit de la Démocratie, Paris: Sciences Po Les Pres, 2005, pp. 47-102. See also J. Nef, "Truth, Belief, and Civilization: Tocqueville and Gobineau", the Review of Politics, 25, 4, October 1985, pp. 460-482.

<sup>25</sup> D. J. Elazar, "Tocqueville and the Cultural Basis of American Democracy", Political Science and Politics, 32, no. 2, June 1999, p. 207 [207-210]

<sup>26</sup> In fact, Tocqueville had intended to entitle vol II of his *Democracy* as "The Influence of Equality on the Ideas and Sentiments of Men" See, E. Nolla, "Editor's Introduction", in A. de Tocqueville, Democracy in America, Indiana, Indianapolis: Liberty Fund, 2012 [1835], p. ciii.

of betterments in political democracy—like the extension of the franchise—and whether they translate into more economic liberties, like reductions in taxes. But evaluation of fiscal freedom has always been subject to cultural influences<sup>27</sup> that could bias most voters' decisions towards fiscal options not necessarily in favor of lower taxation; in addition, socially held values in favor of low taxes must rely on a general social acceptance of the liberal market economy with a reduced public sector; but, even assuming that most free voters clearly identify material prosperity and growth as linked to lower taxation, and that freedom from excessive taxes is an essential component of their cultural heritage, it remains to be seen under what circumstances the politically free voter would decide on moderate fiscal policies instead of more intense state intervention, higher taxes and more public restrictions to free markets: a “rational” voter may want to restrict his own economic liberty through higher taxes even at the cost of giving up a certain degree of material prosperity and economic growth.

In summary, for a more politically free and participatory democracy with universal suffrage to become a less redistributive economic system, in addition to some immunity to special interests, it is required, first, a cultural framework within which liberty is generally preferred over equality, and second, a well informed voter's behavior that does not purposely restrict his own economic liberty.<sup>28</sup>

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<sup>27</sup> See A. de Jasay, *The State*, Oxford: Oxford University Press, 1985.

<sup>28</sup> Tocqueville's reflexions on the role of custom, mores and instincts on voters preferences shed light on the voters' preference attitudes to redistribution. In explaining the economic and political success of the American republic, A. de Tocqueville stated: “I consider mores to be one of the great general causes responsible for the maintenance of a democratic republic in the United States. I here mean “mores” (*moeurs*) to have its original Latin meaning; I mean it to apply not only to “*moeurs*” in the strict sense, which might be called the habits of the heart, but also to the different notions possessed by men, the

However, as Lawrence Harrison points out: “the fact remains that most economists are uncomfortable dealing with *culture*, particularly since it presents definitional problems, is difficult to quantify, and operates in a highly complex context with psychological, institutional, political, geographic and other factors.”<sup>29</sup> Yet, there is a renewed emphasis on institutions as *rules of the game*,<sup>30</sup> the external framework that shapes individual behavior, preference and culture, so that the view of decision-making as a semi-rational process based on cultural values has recently taken central stage in economic analysis.

Douglass North and Arthur Denzau explained the analytical challenge:

The rational choice framework assumes that individuals know what is in their self interest and make choices accordingly. Do they?...the diverse performance of economies and polities both historically and contemporaneously argues against individuals really knowing their self interest and acting accordingly. Instead people act in part upon the basis of myths, dogmas, ideologies and ‘half-baked’ theories...In order to understand decision making under such conditions of uncertainty we must understand the relationships of the mental models that individuals construct to make sense out of the world around them, the ideologies that evolve from such constructions, and the institutions that develop in a society to order interpersonal relationships.<sup>31</sup>

The concepts mentioned by North and Denzau—ideologies, myths, dogmas, “half-baked” theories, mental models or social customs—overlap with one another and are slippery enough as to make them difficult to handle in economic analysis. Yet, they are

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various opinions current among them, and the sum of ideas that shape mental habits...So I use the word to cover the whole moral and intellectual state of the people”. [Democracy in America, Chicago: Encyclopedia Britannica, Inc, 1965 [1835-1840], vol 1, part II, chap. IX, (“The main causes tending to maintain a democratic republic in the United States”), secc: “Influence of mores upon the maintenance of a democratic republic in the United States”. p.150.]

<sup>29</sup> L. E. Harrison, “Why Culture Matters” in L. E. Harrison and S.P. Huntington (eds.), Culture Matters. How Values Shape Human Progress, New York, Basic Books, 2000, p. xxv.

<sup>30</sup> D. Acemoglu, and J.A. Robinson, Why Nations Fail?, New York: Crown Publishers, 2012; Y. Algan, and P. Cahuc, “Inherited Trust and Growth,” American Economic Review, 2010,100 (5), pp. 2060–2092. Also see ,G. Tabellini, “Presidential Address: Institutions and Culture,” Journal of the European Economic Association, 2008, 6 (2-3), pp. 255–294, and G. Tabellini “Culture and Institutions: Economic Development in the Regions of Europe,” Journal of the European Economic Association, 2010, 8 (4), pp. 677–716.

<sup>31</sup> A. T. Denzau and D. C. North, “Shared Mental Models: Ideologies and Institutions”, Kyklos, vol. 47, 1994, I, pp. 3-4.

crucial to understand the generation of collective preferences. All have in common that they are based on beliefs and values, that is, generalized ethical valuations and non-rational explanations that individuals prefer to hold in a culture, and can apply to natural phenomena—such as the rhythm of the tides or the celestial orbits—or to the internal organization of the community, like for example, the optimum way to tax voters' income.<sup>32</sup> This “subjective” view of values is not new, Alexis de Tocqueville also pointed to the unquestioned role in collective action and political life of *dogmatic beliefs*—“opinions which men take on trust without discussion”<sup>33</sup>—that glue together a community. His analysis implies that institutions inculcate cultural norms:<sup>34</sup> dogmatic beliefs stemmed from the new democratic institutional order—that Tocqueville had addressed in volume I of his *Democracy*—and constitute the general framework of the state of mind, culture and *moeurs*, that explain general behavior, which he analyzed in volume II.<sup>35</sup> But Tocqueville also showed how social behavior that springs from individualism evolves from being one of calculus into being one of custom: “At first it

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<sup>32</sup>The cultural beliefs that shape economic values share with the rest of cultural values the fact that they are unidentified and never discussed by the group members. A cultural belief is only noticed from outside the community by an outsider that does not hold it as his own, and is, consequently intellectually surprised by it. As soon as a cultural value becomes explicitly known and analyzed by the members of the community, it becomes an *idea*, rather than a value, that is, a concept subject to discussion and reasoning, a theory or a hypothesis. See M. Grondona, Hacia una Teoría del Desarrollo. Las Condiciones Culturales del Desarrollo Económico, Buenos Aires: Ariel, Planeta, 1999, p. 232; also see: J. Ortega y Gasset, Ideas y Creencias. Obras Completas, Madrid: Alianza y Revista de Occidente, 1983, vol. V, pp. 379-411. Also see S. Huntington, “Cultures Count”, in L. E. Harrison and Samuel Huntington, Culture Matters, cit., p. xv.

<sup>33</sup> A. de Tocqueville, Democracy in America, cit., vol 2, cap II: “Concerning the Principal Source of Beliefs Among Democratic Peoples” pp. 229-230.

<sup>34</sup> For a modern view of this approach see S. Lowes, N. Nunn, J. A. Robinson, and J. Weigel, “The Evolution of Culture and Institutions: Evidence from the Kuba Kingdom” NBER Working Paper No. 21798, December 2015, JEL No. D03,N47

<sup>35</sup> L. Harrison, Underdevelopment is a State of Mind. The Latin American Case, Boston: Center of International Affairs, Harvard University Press, 1985.

is of necessity that men attend to the public interest, afterward by choice. What had been calculation becomes instinct. By dint of working for the good of his fellow citizens, he in the end acquires a habit and taste for serving them”.<sup>36</sup> What is important for our purpose, however, is that the values embodied in an economic culture may or may not favor liberty, including economic liberty, as a basic trait of their “habits of the heart”. That is to say, economic liberty—and low taxation/low government expenditures—very well may not be a highly valued *moeur* of many cultures.

The behavior of the *rationaly irrational* voter.

Even in the absence of cultural biases against economic liberalism—*economofobia*, as this attitude is referred to by Hayek<sup>37</sup>—another element is required for political freedom and democracy to transform themselves into less economic coercion and taxes, and that is that the average well informed voter decides in favor of free market oriented politicians and moderate taxation at the time of casting his vote. If the cultural environment and the prevailing values are in favor of freedom, and the spread of economic knowledge is such that most electors—at least the well informed minority—are aware of the close connection between increases in material prosperity and advances in democracy, why would a voter decide against free market politics and in favor of higher taxes? The traditional public-interest view would predict that democracies foster

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<sup>36</sup> A. de Tocqueville, cit, vol 2, end of second part of chapter iv. pp. 274-275.

<sup>37</sup> F.A. Hayek, The Road to Serfdom, Chicago: The University of Chicago Press, 1944, p. 222.

economic freedom to the extent that politicians and decision-makers listen to and follow what voters want, so that the failure to grow in material prosperity can be explained, not by the voters' choices, but by the leaders' deafness to their electorate's orders.

A first objection against democracy as a guarantee of economic freedom comes from the field of public choice. The paradox of market and fiscal coercion within political liberty was advanced a long time ago by Gordon Tullock: "The *rational ignorance* model, assumes that the individual, in considering any political issue, makes a sort of estimate of the likely effect upon him of the ultimate government decision".<sup>38</sup> Besides, behavior in the real world could be slightly more complex. Surveys and extensive experience of economics professors worldwide<sup>39</sup> attest to the prevalence of *folk economics* in the opinions of students, the media, most politicians, and the general public. If this were the case, the economic voters' errors could be considered to be systematically biased against economic freedom and in favor of higher taxes, and consequently could hardly be aggregated as if errors were normally distributed and, therefore, cancelled out. The underlying problem, then, is to ascertain whether there is a systematically biased error in public opinion in favor of redistribution. This is exactly the problem Alexis de Tocqueville addressed in chapter 1 (part II) of his *Democracy's* second volume entitled "Why Democratic Nations Show a More Ardent and Enduring Love for Equality than for Liberty". He wrote: "Do not ask what singular charm the men of democratic ages

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<sup>38</sup> G. Tullock, *Toward a Mathematics of Politics*, Ann Arbor: The University of Michigan Press, 1967, pp. 102-103. Defenders of the public interest consider this to be a "political" failure: the electoral system does not translate the voter's preference for material prosperity into policies that foster economic freedom, but it can be avoided with wider enfranchisement and more participation. See, D. Wittman, *The Myth of Democratic Failure. Why Political Institutions Are Efficient*, Chicago and London: The University of Chicago Press, 1995 and J. Surowiecki, *The Wisdom of Crowds. Why the Many are Smarter than the Few*, London: Random House, 2006.

<sup>39</sup> See P. Rubin, "Folk Economics", *Southern Economic Journal*, 2003, 70(1), pp.158-160.

find in living as equals or what special reason they may have for clinging so tenaciously to equality rather than the other advantages society offers."<sup>40</sup> He clearly foresaw the biased preference for redistribution and the loss of liberty that democracy would bring:

Democratic people always like equality, but there are times when their passion for it turn to delirium...[it] seeps into every corner of the human heart, expands and fills the whole. It is not use telling them that by this blind surrender to an exclusive passion they are compromising their dearest interest; they are deaf. It is no use pointing out that freedom is slipping from their grasp while they look the other way; they are blind, or rather they can see but one thing to covet in the whole world.<sup>41</sup>

In Tocqueville's opinion the passion for equality, and consequently for redistribution, is "ardent, insatiable, eternal and invincible",<sup>42</sup> but besides fiscal blindness, there could be another reason for the preference of equality over economic freedom. In addition to Tullock's *rational ignorance*, and the lack of economic knowledge by the voter there exists economic *anomalies*, i.e., individual irrationalities, cognitive errors, committed by voters even if they possess a command over the discipline and sufficient information.<sup>43</sup> The *anomalies* approach, however, does not take into account preferences for or against redistribution on the part of the voter, it simply focuses on

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<sup>40</sup> A. de Tocqueville, *Democracy*, cit., vol II, p. 170.

<sup>41</sup> Ibid. p. 170.

<sup>42</sup> Ibid., p. 171.

<sup>43</sup> R. H. Thaler defines an *anomaly* as "a fact or observation that is inconsistent with the theory... Two ingredients are necessary to produce a convincing anomaly: first, a theory that makes crisp predictions and second, facts that contradict those predictions". R. H. Thaler, *The Winner's Curse. Paradoxes and Anomalies in Economic Life*, Princeton, New Jersey: Princeton University Press, 1992, p. 2. Thaler assigns great importance to cognitive errors—"the possibility that individuals simply get it wrong" (p.2-3) but finds the main source of anomalies in the idea of reciprocal altruism:

This explanation...is based on the observation that people tend to reciprocate—kindness with kindness, cooperation with cooperation, hostility with hostility, and defection with defection, Thus, being a free rider may actually be a less fruitful strategy when the chooser takes account of the probable future response of others to his or her cooperation or defection. A cooperative act itself—or a reputation of being a cooperative person—may with high probability be reciprocated with cooperation, to the ultimate benefit of the cooperator. p.2-3.

mistakes committed when choosing.<sup>44</sup> For a deeper insight into voter's preference with respect to government expenditure and taxes, a further step in the analysis is necessary: the introduction of a utility function with parameters representing preferences for equality and for freedom: "What is at issue is the empirical importance of the altruistic, publicly interested goals of rational actors determining legislative and regulatory outcomes."<sup>45</sup> Opening the *black box* of preferences towards ideology, redistribution, economic freedom and communality allowed for a more complete view of voter's behavior in democratic systems that also included *psychic*<sup>46</sup> or *sociological*<sup>47</sup> benefits in the analysis. In Paul Rubin's words: "It may be that in addition to tastes for policies individuals also have tastes for feeling that they themselves have influenced those policies"<sup>48</sup>. Phillip Nelson found an explanation for this behavior in the voter's *herd effect*, that is, his tendency "to fit in with desired friends and associates",<sup>49</sup> and Kalt and Zupan added two further motives to the ideological preferences of voters: "First, the successful promotion of an ideology may give individuals the satisfaction of knowing

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<sup>44</sup> This shortcoming is criticized in the comment of George Stigler on purposeful mistakes: "The assumption that public policy has often been inefficient because it was based on mistaken views has little to commend it. To believe, year after year, decade after decade, that the protective tariffs or usury laws to be found in most lands are due to confusion rather than purposeful action is singularly obfuscatory", George Stigler, "Economics or Ethics", in Kurt Leube and Thomas G. More (eds.), The Essence of Stigler, Stanford: Hoover Institution Press, 1986, p. 309.

<sup>45</sup> J. P. Kalt and M. A. Zupan, "Capture and Ideology in the Economic Theory of Politics", The American Economic Review, 1984, 74, n. 3, p. 279.

<sup>46</sup> O. Ashenfelter and S. Kelley, "Determinants of Participation in Presidential Elections", Journal of Law and Economics, 1975, 18, pp. 698.

<sup>47</sup> R.D. Tollison and T.D. Willet, "Some Simple Economics of Voting and Not Voting", Public Choice, 1973, 16, p. 61.

<sup>48</sup> P. Rubin, "Ideology", in William F. Shughart and Laura Razzolini (eds), Elgar Companion to Public Choice, Edward Elgar Publishing, Cheltenham, UK, 2001, pp. 328-336, p. 331. Also see, J. B. Kau and P. H. Rubin, "Ideology, Voting, and Shirking", Public Choice, 1993, 76, pp. 151-172.

<sup>49</sup> P. Nelson, "Voting and Imitative Behavior", Economic Inquiry, 1994, 32, n. 1, p. 92.

that they have concretely improved the lot of others. Second, even if the pursuit of ideology has no effect on others, individuals may derive satisfaction from ‘having done the right thing’<sup>50</sup>.

There is, however, an additional element to be taken into account. That is when individuals make economic decisions—as the pursuit of equality at the cost of freedom and economic growth described by Tocqueville in democracies—that go against the voter’s own interest. That was the contribution of the *rational irrationality* view. By incorporating purposeful mistakes into the analysis of irrational decisions, voter outcomes can be viewed as the result of a market. A market for redistribution, as developed by Bryan Caplan.<sup>51</sup> The utility function behind the demand for redistribution implies a preference for economic freedom—and consequently, for material wellbeing and economic growth as well. But it also embodies an alternative preference for higher taxation, (i.e., a loss of material wealth) under the assumption that higher taxes, income redistribution and tighter governmental control of the economy satisfy the ideological loyalty of a substantial minority that, although aware of the material cost of coercion, is willing to give up a certain amount of wealth and growth in exchange for ideological satisfaction and expression of loyalty. Given the small impact of each individual’s vote

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<sup>50</sup> J. P. Kalt and Mark A. Zupan, cit., p. 281.

<sup>51</sup> B. Caplan, The Myth of the Rational Voter. Why Democracies Choose Bad Policies, Princeton and Oxford: Princeton University Press, 2007.

on the total electoral outcome, “letting emotions or ideology corrupt our thinking is an easy [and inexpensive] way to satisfy such preferences.”<sup>52</sup>

Individual voters will give up economic liberty if the price of renouncing low taxation is high, i.e. if the number of voters is small and the chance of influencing final aggregate outcome in terms of material prosperity forgone is high. But the price of redistribution (paying higher taxes) will go down as the franchise is extended and more decision makers (voters) will decide on the final collective outcome. In that case, coercion and redistribution demanded (forgone economic freedom) will grow up. Since the choice between irrationality and material wellbeing (growth) is governed by preference (feel-good ideology) and prices, Bryan Caplan’s model represents a market for irrationality, that is, a process of choosing *rational irrationality*: “in real world political settings the price of ideological loyalty is close to zero. So we should expect people to *satiate* their demand for political delusion, to believe whatever makes them feel best”.<sup>53</sup> Individual voters could reach a *satiation point equilibrium* without practical consequences for him. So what this model predicts is that as the price of ideological loyalty gets close to zero, the demand for taxes and public expenditures will approach whatever equilibrium makes him feel best in ideological terms. But almost two centuries ago, Tocqueville foresaw those habits of the heart, *moers* and passion as the *feel-good* preferences described by Caplan. They were passions associated with the democratic psyche and the cultural frame of mind that placed equality over liberty as democracy's supreme value.

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<sup>52</sup> Ibid. p. 14.

<sup>53</sup> Ibid. pp. 132-133.

Democracy's drive to equality was unavoidable for the democratic man. Even if he were aware of its cost, he was not able and willing to scape :

Nobody is so limited and superficial as not to realize that political liberty can, if carried to excess, endanger the peace, property, and lives of individuals. But only perceptive and clear-sighted men see the dangers with which equality threatens us, and they generally avoid pointing them out. They see that the troubles they fear are distant and console themselves that they will only fall on future generations, for which the present generation hardly cares.<sup>54</sup>

### Summary and conclusions

In the face of our current debt crisis and the continuous pressures to extend government expenditures based on *social rights* and *entitlements*, the insights of Alexis de Tocqueville on the drive toward equality, even at the cost of economic growth, could be illuminating. In Tocqueville's times it was the extension of the suffrage that was under consideration. What is at stake today is whether universal *social rights* and the level of taxation and public expenditure they bring about are compatible with sustained productivity gains, economic growth, and expanding fiscal capacity.

The optimistic view on the future of taxation under democracy frequently assigned to Tocqueville needs to be reconsidered. It is true that his *Democracy in America* includes an implicit limit to fiscal growth as the franchise spreads. But this is no more than a hope for the beneficial effects of prosperity and the extension of proprietorship; in reality, Tocqueville distrusted the inevitable drift of history towards democracy because democracy would bring about a passionate search for equality, and, as E. Nolla points out, "the principle of equality (which is the principle *par excellence* since it comes down to the principle of identity) ends up by imposing a structure in which

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<sup>54</sup> A. de Tocqueville, *Democracy...*, cit., vol II, p. 270.

reason and confrontation are lacking"<sup>55</sup> and this, in turn, would transform the struggle for equality into an endless drift without a final stable settlement : "the more equal men are, the more insatiable their longing for equality".<sup>56</sup> At the end, he concluded that the "undisciplined passions of democracy, and especially the unintentional cultural revolution created by the advance of equality, would not strengthen but rather undermine freedom."<sup>57</sup> This had, at least, two fearsome consequences for the future of modern democratic societies. One was political, the other one strictly fiscal. At the end of his *Democracy*—in a chapter entitled "What Sort of Despotism Democratic Nations Have to Fear"—Tocqueville accurately described the drive toward state despotism associated with the invasion of the individual's realm in modern society:

I am trying to imagine under what novel features despotism, may appear in the world. In the first place, I see an innumerable multitude of men, alike and equal, constantly circling around in pursuit of the petty and banal pleasures with which they glut their souls. Each one of them, withdrawn into himself, is almost unaware of the fate of the rest [] Over this kind of men stands and immense, protective power which is alone responsible for securing their enjoyment and watching over their fate. That power is absolute, thoughtful of detail, orderly, provident and gentle. It would resemble parental authority if, fatherlike, it tried to prepare its charges for a man's life, but on the contrary, it only tries to keep them in perpetual childhood. [] It provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, direct their industry, makes rules for their testaments, and divides their inheritances. Why should it not entirely relieve them from the trouble of thinking and all the cares of living?<sup>58</sup>

Under egalitarian democracy we face the risk that "governments extend its embrace to include the whole of society"<sup>59</sup> but this also implies an expansion of taxes and public expenditures. The experience of the following two centuries after *Democracy in America* was published confirms Tocqueville's pessimism. Writing more than half a

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<sup>55</sup> E. Nolla, cit., p. cxxvi.

<sup>56</sup> Ibid. p. 289.

<sup>57</sup> A. Kaledin, "Tocqueville's Apocalypse...", cit., p. 47.

<sup>58</sup> A. de Tocqueville, cit., vol II, p. 375.

<sup>59</sup> Ibid.

century later, Joseph Schumpeter predicted that the continuous increase in taxation and government expenditures could finally put an end to redistributive market economies:

If the will of the people demands higher and higher public expenditures, if more and more means are used for purposes for which private individuals have not produce them, if more and more power stands behind this will, and if finally all parts of the people are gripped by entirely new ideas about private property and the forms of life—then the tax state will have run its course and society will have to depend on another motive forces for its economy than self-interest. This limit, and with it the crisis which the tax state could not survive, can certainly be reached. Without doubt, the tax state *can* collapse.<sup>60</sup>

Schumpeter's premonition may sound excessive today. The tax state did not collapse.

But that was only due to the fact that technical advances and the improvements in the quality of capital, both physical and human, have during long periods of time, translated into substantial gains in productivity that have allowed for more fiscal capacity and income redistribution. Yet nothing guarantees that in the race of productivity against taxes the former will end up as the winner. Productivity gains depend on a complex and uncertain set of causes, while the drive to equality—as Tocqueville predicted—continues unabated.

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<sup>60</sup> J. A. Schumpeter, "The Crisis of the Fiscal State", in R. Swedberg (ed.) Joseph A. Schumpeter. The Economics and Sociology of Capitalism, Princeton, New Jersey: Princeton University Press, 1991 [1918], p. 116.



The resulting  $abdfh$  equilibrium implies that if the franchise were extended, say, to  $oa'$ , the percentage of voters with income below average would increase to  $oc'$  and the median voter's would decrease to  $c'$  with an increase in taxes to  $g'$ . In summary, Peacock derived a function such as FT explaining the level of taxes and public expenditure (as a percentage of GNP) as a result of the extension of suffrage rights among adult population. As the percentage of enfranchised population goes up, a given income distribution determines the percentage of voters below median level of income ( $y < \bar{y}$ ), and this, in turn ( $dd'$ ) establishes the median voter income. As the franchise spreads so does the number of poor voters and, consequently, median income ( $e$  to  $e'$ ) and the pressure to redistribute ( $f$  to  $f'$ ) both increasing with them taxation as a percentage of total product ( $g$  to  $g'$ ). A similar result would be achieved with a shift from  $bb'$  to  $vv'$ , for example, that lowers the concentration of income and increases the number of poor voters, or with a shift of  $ff$  to  $ff'$  that increases the pressure to redistribute for a given drop in median voter income.

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