In his sympathy for England and the United States, Hazony’s nationalism has stronger liberal nuances than he himself would admit. It is hard not to sympathize with his criticism of the hypocrisy of the global elite. But even though he concedes that there is such a thing as a “neo-nationalism” that follows Rousseau and the French revolutionaries and “is known for its tendency toward absolutism,” his rosy portrait of nationalism is not convincing. He envisions an “international order of national states” based on national independence and what he calls “the biblical moral minimum for legitimate government.” In the Bible, “the king or ruler, in order to rule by right” needs to “devote himself to the protection of his people in their life, family, and property, to justice in the courts, to the maintenance of the Sabbath, and to the public recognition of the one God.” In modern jargon, the ruler needs to assure “the minimum requirements for a life of personal freedom and dignity for all.”

Alas, this “all” is limited by the boundaries of what the nation is: a bigger tribe, which is very often ruthless toward those who do not belong to it.

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Hans Gersbach

In his speech in the House of Commons on November 11, 1947, Winston Churchill famously said, “Democracy is the worst form of government, except for all those other forms that have been tried from time to time.”

Churchill was and is still right. Even the best democracies have fundamental problems. The Hobbesian problem remains: a monopoly of government power, even if necessary to maintain the rule of law, can lead to the deterioration of democratic systems and the inadequate provision of public goods. Such a development can be currently seen in countries like Venezuela and Turkey.

But even if no fundamental threats to the rule of law occur as they have in Venezuela and Turkey, there are other hidden influences that can slowly erode individual liberty and extend the power of
politicians in otherwise well-functioning democracies. And the electorate may not even perceive what is happening. The inadequate control of representatives by voters, particularly after they have been in office four or five years, is an important factor that contributes to eroding democracies.

Hans Gersbach has been trying to design better democratic systems since the 1990s. His new book, *Redesigning Democracy: More Ideas for Better Rules*, suggests political mechanisms to address some of the inherent problems in democracy. It comprises two different parts. The first part (Contractual Democracy) argues for contracts between political candidates and the citizens, thus allowing for post-election assessment of the candidates’ promises. Gersbach focuses on the fact that inferior short-term projects that show results in the first election period may be selected over superior long-term projects that only come to fruition in the second election period. The second part of the book (Rules for Decision-Making and Agenda-Setting) argues that better political rules for agenda-setting can lead to more optimal outcomes in terms of divisible public goods.

In Part I, Gersbach proposes using contracts with political candidates to improve the democratic system. That produces obvious difficulties: it is impossible for millions of voters to enter into and assess contracts offered by political candidates. Gersbach suggests an independent authority that assesses the performance of the politicians in fulfilling the contract. The candidate who succeeds is rewarded or penalized according to how well he implements the contract. The possible conflicting interests of the “independent” authority, however, are not discussed.

Gersbach shows that, with only elections rather than incentive contracts, the public cannot motivate a politician to undertake long-term projects if the politician’s discount factor is below a certain threshold. Moreover, if reelection prospects are sufficiently uncertain, a politician may not initiate long-term projects even if his discount rate is zero. If politicians can offer contracts stipulating future transfers, however, the situation changes. There, in a two-person election, the candidate with the lower discount factor will become indifferent toward choosing the long-term or the short-term project. The transfers proposed for the contracts can be monetary, or special honors can be awarded. The politician with the larger discount factor will be elected and his reelection prospects are certain. Under this
system, even if the public does not know the discount factors of the political candidates—that is, in the case of asymmetric information—there is an equilibrium in which all politicians will undertake beneficial long-term projects.

In Part 2, chapter 8, Gersbach discusses how a variable level of a public good financed by taxes can be provided within the framework of a democratic constitution, even when aggregate shocks are absent. He shows that an efficient provision occurs if the following four rules are met: (1) a supermajority rule requiring a prespecified vote-share for the adoption of a particular level of the public good; (2) a rule levying the same tax rate on all individuals except to the proposal maker (who is exempt from taxation); (3) no subsidies; and (4) the agenda setter has to pay a fixed amount for agenda setting. Note that all citizens have the right to propose an agenda and to vote on the selected one. The agenda setter is chosen among all agenda proposers by fair randomization.

Gersbach offers a second insight in chapter 8: in the case of aggregate shocks to benefits and costs, the efficiency of democratic constitutions can be preserved if supermajority rules are replaced by tax-sensitive rules, where the required majority is a strictly monotonically increasing function of aggregate tax revenues. A third insight is that it is always possible to find a democratic constitution that leads to a Pareto-improvement compared with the status quo.

In chapter 9, Gersbach takes a different approach to compensate the minority who have lost the first vote on whether the public good should be provided. In the second round, only members of the outvoted minority participate under a unanimity rule to determine the financing of the public good. Therefore, the majority, having succeeded in the earlier vote, can be burdened with higher taxes than the minority, although there is an upper limit for individual tax burdens. This approach allows for some protection of the minority outvoted in the first voting round. Gersbach shows that this scheme, on balance, outperforms simple majority voting.

The final chapter attacks a different problem in providing public goods that may occur in democracies: when a minority with strong preferences for a public good is outvoted by a majority with weak preferences for the good, and everyone shares the same tax burden to finance it. Gersbach again recommends a two-stage approach to solve this problem. First, an initiative group is formed that can propose higher taxes for its own members than for the rest of the
electorate. Second, a general vote is taken on whether that proposal will be accepted.

*Redesigning Democracy* suggests creative new procedures for enabling democratic systems to achieve better results than are presently available. Gersbach’s proposals admirably do not alter the rights of all citizens to participate in elections and to set the agenda. Hopefully, some existing political systems will consider, if not introduce, the proposed reforms. But scholars working in the field of public choice are always faced with the difficult task of finding new ways to motivate politicians, interest groups, and the electorate to introduce reforms. The innovations proposed in this book are worthy of consideration.

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**Capitalism without Capital: The Rise of the Intangible Economy**
Jonathan Haskel and Stian Westlake

In the introduction to *Capitalism without Capital*, economists Haskel and Westlake focus on the concept of “investment.” They argue that “investment is what builds up capital, which together with labor, constitutes the two measured inputs to production that power the economy, the sinews and joints that make the economy work.” Traditionally, when economists measured investment, they were measuring investment in physical goods, plants, and machinery. However, with the advent of the internet in the 1990s, the idea of a new “knowledge economy” emerged, based on what economists began to recognize as the results of research and development (R&D) and the largely nonphysical ideas resulting from it. If this new economy were to be measured by economists, the valuation of these intangible assets would need to be incorporated into their models of economic growth.

In his seminal research into Microsoft Corporation’s financial accounts, economist Charles Hulten found that the traditional assets of plant and equipment were only $3 billion, equivalent to 4 percent of Microsoft’s assets and 1 percent of its market value. This was a stark example of “capitalism without capital”—namely, a 21st-century corporation that develops “specific products or processes,” or invests