THE JOURNAL OF PHILOSOPHICAL ECONOMICS

Volume VI Issue 1 Autumn 2012

ISSN 1843-2298

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In *Government versus Markets*, Vito Tanzi, economist and former director of department of fiscal affairs at the International Monetary Fund, pursues three distinct objectives. First, he offers a historical account of the rise of the state, i.e. the increase in taxation and public spending. Second, he elaborates a normative narrative for this rise that fits this historical account. Third, he defends the idea of a reorganization of the role of the state. By doing so, the book participates to recent works in political theory that combine a plausible, factual, account for the fiscal expansion of the state as well as a normative argument (e.g., Joseph Heath (2011) or David Moss (2002)).

Through reflections on the growth of public expenditures, the general intent of the book is to tackle the *market failures view* that emerged from Welfare Economics (Baumol 1952; Marshall 1920; or Pigou 1932), which postulates that public intervention on markets is justified by their failure to provide the positive outcomes they are supposed to provide (which is the best possible use of scarce resources). For Tanzi this view is unsatisfactory because it supports normative theories that 'assume that the state's intervention to correct for market failures is inherently benevolent and that the state is capable of correcting these failures administratively' (p.4). The flaw goes beyond the capacity and intention of the state to correct market failures: a widespread idea is that, in presence of market failures, the state should replace markets. Consequently, governments have become more involved in the economic system, i.e. taxes and public spending have skyrocketed during the 20th century, at a cost of a decreased efficiency.

Government versus Markets offers a rich factual account of the development of the state during the 20th century. The book offers also a quick presentation of different authors who highlighted different functions for the state: Adam Smith for the allocation of resources (pp.48-60), socialism and Alfred Wagner for the distributive role (pp.72-79), and John Maynard Keynes for stabilization policies (pp.82-85). This presentation extends to the voluntary exchange and public choice theories (pp.169-192) as well as the 'Nordic European economic theory of fiscal policy' (pp.193-204).

The central idea of the book is that public spending and taxing have been increasing since the beginning of the 20th century, with a clear acceleration from 1960's to the mid 1990's, due to diverse factors (innovations for tax collections, increase of the firms' size, elevation of the expectations towards the state, etc.). Among these factors, Tanzi highlights the role of 'fiscal illusions' (pp.152-157). As demonstrated by the literature on cognitive biases (e.g., Daniel Kahneman and Amos Tversky (1974)), individuals suffer from distorted perceptions and evaluations. Governments have taken advantage of individuals' inability to compute the real costs and benefits of public spending. Therefore, 'fiscal illusions are not just random errors on the part of the taxpayers but also systematic, government-induced errors' (p.155). If we reconstruct Tanzi's normative point, the role of the government through taxation creates a major problem of *agency* that may be decomposed into two sub-issues: *efficiency* and *autonomy*. There is also a third problem regarding *equity*.

First and foremost, the economic expansion of the government is problematic in regard to *individual agency*. It may be interpreted as a breach of such agency since it has been mostly imposed on individuals through fiscal illusions. Without such biases, individuals would have never agreed to the rise of public expenditures. This traduces what Tanzi labels as a 'forced contract'.

At several occasions (e.g., p.20, pp.108-109) Tanzi affirms that large governments have crowded out private initiatives. This critique is common among classic liberals and libertarians, who usually underscore the role played by private institutions, such as churches, professional guilds, friendly societies or unions in the furniture of social services (e.g., proto forms of social insurance) before the development of the state. This objection has two components. On the one hand, governments have replaced an efficient device (e.g., friendly societies) by an inefficient one.

In accord with the Hayekian position (Hayek 1945), the loss of efficiency is due to the difficulty of a centralized institution for dealing with the complexity of knowledge source or controlling local opportunism (e.g., free riding). On the other hand, the current scale of public involvement in private affairs violates individuals' autonomy, grounded in the right to associate.

Firstly, *efficiency* issues encompass pure *economic efficiency* (i.e. the level of outcomes the society gets out of a specific productive setting) and broader *social efficiency* (i.e. the impact of public spending on social indicators such as education, health, etc.) (pp.229-250). According to Tanzi, goods and services bought through the state would be a suboptimal deal for citizens in terms of welfare and well-being. With a lower level of taxation, citizens' disposable income will be higher, so they could directly buy a large set of services such as health insurance or education from the markets.

Secondly, governmental involvement is also objectionable in virtue of the disrespect to the freedom of association that is grounded in *individual autonomy*. Again, this argument is common in the liberal tradition that values decentralized social organizations (Levy 2003). The development of large states contravenes this fundamental right because one of the 'fundamental assumptions' at the origin of such expansion (p.13) (along with the presumed inability of private institutions to satisfy individuals' needs) is the 'myopia of citizens'. Thus, the invasive role of public institutions is based on a paternalistic stance regarding the capacity of individuals to perceive and pursue their true interests.

Finally, there is also an issue of *equity*. Because the conditions for spending have been relaxed, the span of beneficiaries has expanded. While states originally directed most of their resources to the poor, now the benefits are distributed across the whole population. From vertical, redistribution has become mainly horizontal (pp.16-17): contributors and beneficiaries henceforth belong to the same income class. Furthermore, some individuals use the state at their personal advantage (which could be interpreted as a violation of the original contract that ties people together).

Government versus Markets does not call to shut down the state, but to reform by reorienting its activities from spending to regulation (i.e. providing better information, departing from universal assistance to targeted assistance directed to the "deserving poor", etc.). The state should focus on making the markets more efficient instead of replacing them. This illustrates Tanzi's diagnosis of the major flaw of the market failures view: the postulate that, for any instance of (supposed) failure of the markets, public institutions should replace markets (p.316). However, it will imply for the state to retreat from some sectors where it has a quasi-monopoly (pensions, health, education) (p.25ff).

The book is rich and dense. It is topical in a time when the adequate role of governments is nurturing intense debates, accentuated by the current crisis of public finances. In spite of these obvious qualities, it suffers from important drawbacks. Firstly, it is difficult to get a *precise idea* of the kind of state (e.g., p.25, p.321) that receives Tanzi's favours. Certainly, he advocates for regulation over taxation and spending, for the provision of better information to citizens and the removal of obstacles to competition. But these avenues remain underexplored and more space should have been devoted to the question "what kind of state is needed" instead of trying to prove the need for reforming the state and its economic role (point on which most of the readers would agree, in one way or another).

Secondly, the argument of the book is perhaps too trivial: what is the difference between Tanzi and more traditional free-marketers? If the central idea is that the state should remove obstacles to markets, it is a restatement of some neoclassical position. Moreover, the assumption that the market failures view defends replacing markets by governmental mechanisms is unfair and inaccurate. This view has been build around the idea of correcting market failures, not replacing markets. This is the principle of the Pigovian taxation: reintegrating the externalities within market prices for forcing market prices to include the social costs or benefits of a given activity.

Thirdly, the appeal to cognitive biases ('fiscal illusion') justifying the downscale of taxation and expenditures is troublesome. On the one hand, cognitive biases support Tanzi's narrative that turns manipulation into the main dynamics. But, on the other hand, these biases disappear from his argumentation when he evaluates free markets. In other words, individuals would suffer from illusions and biases in their relation with the government (through taxation and public spending), but not during market transactions.

The treatment of the topic under consideration is partial. The book does not provide solid reasons demonstrating that free markets settings offer an environment less vulnerable to "illusions" than publicly managed environments, in spite of a large bunch of evidence coming from experimental psychology and economics (Ainslie 2001; Ariely 2008; Gilbert 2006; Kahneman 2011; or Thaler and Sunstein 2008).

Moreover, if fiscal illusion is the central problem, it does not advocate *per se* for a retreat from publicly managed environments or a decrease of public spending, but, ironically, for more paternalistic policies...

Fourthly, the implicit thesis of the book is that public spending has exploded because public institutions begun not only to allocate resources in order to promote efficiency but also redistribute income for egalitarian reasons and stabilize the economy for lessening the intensity of business cycles. By endorsing more diverse social objectives, public institutions have diverged from their traditional function of easing the allocation of productive resources.

The rise of large public spenders is presented as flowing from strategic behaviours (retribution of different groups within the society, some vested interests in public spending), irrational beliefs and myopic perception. However, one may wonder if it is the most plausible narrative. For sure, these elements have played a role, but the fact that industrialized states mutated from their minimalist forms in the 19th century to look like 'insurance compan(ies) with an army' (Paul Krugman) has to do with comparative advantages over markets in terms of efficiency, for handling collective action problems, moral hazard or asymmetry of information. The book lacks a discussion of these relative advantages in terms of efficiency, which is a point increasingly discussed in political theory (e.g., Joseph Heath (2011), David Moss (2002)).

Regardless of these reservations, *Government versus Markets* is a well-documented and topical book, which proposes a useful framework for apprehending the rise of the state as an economic agent by structuring such history around few main functions (allocation, distribution, and correction). It has an additional advantage: to show that the fiscal dimension, if important, is not exclusive. Too often, the intervention of the state in the economy is perceived as being about taxing and spending a great deal, which is reductive. The merit of the book is nevertheless to advocate for a more refined view of the state as an institution which role goes beyond taxing and spending.

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