# Public Choice and the Diffusion of Classic Italian Public Finance[1]

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The period roughly bounded by 1880 and 1940 was one of great flourishing for Italian scholarship on public finance. Had George Shackle not already preempted the term, this period could well be designated the "Years of High Theory" for Italian public finance. During this period, Italian scholars created a unique theoretical orientation toward public finance. They treated public finance not just as one specialized field among several within economics, but as an independent object of study, partly in economics but also concerned with politics, law, and administration as well. In this integrated approach to public finance, the Italian scholars are reminiscent of the Cameralists, who likewise developed an integrated approach to public finance in the Germanic lands between roughly 1500 and 1850.[2]

The Italian orientation diffused only slowly and incompletely into Anglo-Saxon public finance. This slow diffusion was doubtless due partly to the language barrier. Even to this day, very little Italian public finance has been translated into English, with Buchanan (1960) being the only major secondary treatment. But it is more than language that slowed the diffusion of this tradition. The intellectual orientation of Italian public finance also surely slowed its diffusion. That orientation clashed sharply with the dominant orientation of Anglo-Saxon public finance. It took the development of public choice theorizing starting in the 1960s to prepare the intellectual climate for a more favorable reception for the classic Italian themes in public finance. Public choice theory has been the primary intellectual vehicle by which Italian public finance has diffused into Anglo-Saxon public finance, and the intellectual fortunes of the two are tied closely together.

Tracing patterns of scholarly influence can be a complex and time-consuming process, and nothing of the sort is attempted here. The common place observation that correlation does not prove causation applies as well to any effort to ascribe patterns of influence across different bodies of literature. To say that formulations found in one body of literature in some earlier period appear later in some other body of literature does not demonstrate some causal process of influence. Those formulations might have been arrived at independently, or perhaps the path of influence might have run through some third, intermediary body of literature. Any effort truly to trace influence in any substantive manner would have to dissect and discern the processes and channels of influence. This effort would involve archival research to uncover such things as reading patterns, conversations, travels, and lectures. It would be an adventure in the reconstruction of scientific communication, with the objective being truly to uncover the actual, causal patterns of scholarly influence that were at work. This short paper attempts nothing like this. The notion of influence or causation used here is rather like that of Granger-causation, whereby variable $x$ is said to Granger-cause variable $y$ if the incorporation of a past value of $x$ in a regression improves the prediction of the present value of $y$. More generally, a Granger-like causal pattern of influence can be said to exist when past formulations in one body of literature appear subsequently in some other body of literature.

This paper starts by noting the disjunction between Italian and Anglo-Saxon orientations toward public finance, and then describes the central Italian orientation in more detail. The remainder of the paper examines some classic Italian themes in public finance, and explores how public choice theorizing has been the vehicle for carrying the Italian orientation into public finance. Some effort is made to relate the Italian orientation to the Swedish approach to public finance that is associated with Knut Wicksell and Erik Lindahl. While numerous scholars contributed to Italian public finance during its classical period, I shall limit my attention, with one brief exception, to those few scholars whose contributions are now generally familiar to fiscal scholars through translation.[3]

## Setting the Scene: Benham vs. Simons in re De Viti's *First Principles*

There is perhaps no better way to illustrate both the differences between classic Italian and traditional Anglo-Saxon public finance and the opportunities and challenges that the Italian tradition presented than to consider what turned out to be dueling book reviews that were penned in response to the appearance of De Viti De Marco's *Principii di Economia Finanziaria*, which was published in 1934. In August 1934 in *Economica*, Fredric Benham reviewed De Viti's book. In October 1937, Henry Simons reviewed De Viti's book in the *Journal of Political Economy*. A reader of both reviews would be hard pressed to believe that those two people were reviewing the same book, unless the reader also realized that those reviewers held diametrically opposing conceptions of the scope and method of public finance.

Benham began his review by asserting that De Viti's book "is probably the best treatise on the theory of public finance ever written." Benham continues by noting that De Viti's influence has been confined to Italy, along with perhaps some modest influence in Sweden. Benham likens De Viti's *First Principles* to Alfred Marshall's *Principles of Economics* in its broad range combined with deep insights, and laments that the sorry state of public finance in England could be perked up through a strong infusion of De Viti's orientation. Among the noteworthy figures that Benham takes to task as reflecting this sorry state of public finance are F. Y. Edgeworth and A. C. Pigou. Benham asserts that "to turn from [English public finance] to the pages of the present volume [De Viti] is like turning from a Royal Academy exhibition into a gallery of Cézannes." Benham continues by noting that Knut Wicksell's "New Principle of Just Taxation" constitutes a complementary addendum to De Viti.[4] Benham closes his review by bemusing that the "lack of an English translation is a great misfortune and loss to all students of public finance in English-speaking countries."

An English translation did appear in 1936, only the reviewer in the *Journal of Political Economy*, Henry C. Simons did not share Benham's opinion of De Viti's work. Simons began by observing that "the Italian literature of public finance has long been held in high esteem; but its claims to distinction have rested mainly upon works which have been inaccessible to those of us who lacked facility with the language. The translations [both German and English translations were being reviewed by Simons] of De Viti's famous treatise are thus doubly welcome, for they will make possible a more informed consensus, both as to the merits of Italian economics and as to competence of the interpretation and appraisal which it has received in other countries."

After describing this initial sense of eager anticipation, Simons offered his summary judgment of what he found upon reading these translations: "Careful reading . . . has left the reviewer with no little resentment toward the critics who induced him to search in this treatise for the profound analysis and penetrating insights which it does not contain. The *Principii* is revealed to him, not as a great book, but as a . . . monument to . . . confusion." Simons continued by asserting that "there is not a single section or chapter which the reviewer could conscientiously recommend to the competent student searching for genuine insights and understanding."

Simons winds down his review by taking on Benham's review three years earlier in *Economica*: "If his book is 'the best treatise on the theory of public finance ever written,' one hopes that it may be the last. . . . To say that it is distinguished among treatises in its field is to praise it justly and, at the same time, to comment bitterly on the quality of economic thought in one of its important branches. To call it a great book, however, is a disservice to the cause of higher standards and better orientation in economic inquiry."

That two reviewers, each so prominent in his time, can be so opposed in their appraisals can only testify to a sharp clash in the presumed domains of fiscal inquiry.[5] De Viti and Benham shared an orientation toward the domain of public finance that was antagonistic with Simon's orientation. This clash of orientations toward public finance, moreover, took shape in the late 1800s and has been carried forward to this day. Indeed, this clash of orientations can be traced back to Cameralist times.

**Cameralists and Classics: Contrasting Orientations toward Public Finance**

It is instructive to compare the approaches to public finance developed by the British classical economists and by the Cameralists, for this comparision is pertinent to the slow diffusion of Italian public finance. Nearly all public finance texts refer to Adam Smith's four maxims of taxation that he articulated in 1776 in his *Wealth of Nations*. These are:

(1) Taxes should be levied in proportion to property.

(2) Taxes should be certain and not arbitrary.

(3) A tax should be convenient to pay.

(4) A tax should be economical to administer, for both the taxpayer and the state.

The Cameralist contemporary of Smith, Johann Heinrich Gottlob von Justi (1771, pp. 549-65) similarly articulates maxims for taxation, though these maxims, unlike Smith's, have not been carried forward in the public finance literature. Justi's maxims go well beyond Smith in limiting the power to tax. Justi's maxims cover all of the territory that Smith's maxims covered, and then covers additional territory where Smith never ventured to travel. One of these additional maxims is that a tax should never deprive a taxpayer of necessaries or cause him to reduce his capital to pay the tax. A second additional maxim is a requirement that a tax should neither harm the welfare of taxpayers nor violate their civil liberties.

Even more significantly, Smith and Justi differed sharply in the role they assigned to taxation as an instrument of public finance. Smith preceded his presentation of tax maxims with an argument that the state should eliminate its property and the revenues it derives from its property and enterprises. For Smith, the state ideally would get all of its revenue from taxes and would collect no revenue at all from its operation of enterprises or its ownership of property. The market economy would operate according to the private law principles of property and contract, and the state would then intervene into the market economy to collect revenue. For Smith, the ideal state was an interventionist state, one that operated according to principles that were alien to market participants.

In sharp contrast to Smith, Justi preceded his discussion of tax maxims with a discussion of why taxation should be a last resort or secondary means of public finance. Indeed, Justi argued that ideally the state would not tax at all, and would generate all of its revenue through its enterprises and property. For Justi and the other cameralists, the state was itself seen ideally as just one more participant within the society and its economic order, with all participants operating according to the same principles. The cameralist ideal, recognizing that practice rarely if ever conforms fully to ideals, was the state as a peaceful and productive participant within the economic order, in contrast to the Smithian ideal of the state as a violent force for intervention into the economic order. It is perhaps no wonder that Joseph Schumpeter (1954, p. 172) described Justi as "A. Smith . . . with the nonsense left out."

**Neoclassical Public Finance: Choice-theoretic vs. Catallactical Orientations**

The various absolutisms that prevailed in cameralist and mercantilist times have long given way for the most part to various forms of democratic regime. The neoclassical public finance that emerged in the late 19th century was articulated within democratic political contexts. Yet a good deal of fiscal theorizing ignored this change in regime and continued to treat the phenomena of public finance as products of absolutist regimes. This continued use of outmoded formulations was noted in 1896 by Knut Wicksell (1958, p. 82), when he observed that the theory of public finance "seems to have retained the assumptions of its infancy, in the seventeenth and eighteenth centuries, when absolute power ruled almost all Europe."

A pivotal distinction for fiscal theorizing is whether the phenomena of public finance are choice-theoretic or catallactical (Wagner 1997). The appropriate model for an absolutist regime is choice-theoretic, in that fiscal outcomes can be explained as the optimizing choices of some ruler. A good deal of contemporary public finance has maintained the choice-theoretic orientation toward public finance, as if fiscal phenomena are still generated through the same processes that were in place in mercantalistic and cameralistic times. In democratic regimes, however, fiscal phenomena do not arise out of some ruler's optimizing choices. They arise through interaction among fiscal participants.

What results is an interactive or catallactic approach to public finance, which leads often to quite different implications for public finance than does the choice-theoretic approach. Fiscal interaction, moreover, need not be voluntary and agreeable for everyone. Duress and force are as much phenomena of interaction as is agreement, and all are encompassed within a catallactic approach to public finance. This disjunction between choice-theoretic and catallactical approaches to public finance is reflected crisply in the sharply contrasting contributions of Francis Edgeworth (1897) and Knut Wicksell (1896).

The Edgeworthian, choice-theoretic tradition treats public finance as the study of government intervention into the economy, typically to maximize some notion of social welfare. Edgeworth raised the question of how a government would impose taxes within a nation if it wanted to raise those taxes with a minimum amount of sacrifice to taxpayers. For a given amount of revenue to be raised, Edgeworth's ideal state would be one that imposed the least amount of sacrifice upon taxpayers in raising its revenue. Public finance was centrally a normative enterprise enlisted in the service of promoting some fiscal philosopher's vision of goodness to increase some notion of social utility. This orientation toward public finance as concerned with fiscal planning and engineering was later formalized in what has become known as the theory of optimal taxation, inspired by Frank Ramsey (1927) and surveyed in James Mirrlees (1994). This theory fits within the Edgeworthian, choice-theoretic tradition, in that it construes the state as a unitary being that faces its own problem of utility maximization.

This Edgeworthian, choice-theoretic approach to public finance treats the phenomena of public finance as arising from the maximizing choices of a benevolent entity, the state. The state stands outside the market economy and its participants. The people who participate in the market economy may write the first draft, so to speak, but it is the state that revises and perfects the manuscript. Henry Simons stands fully in the Edgeworthian branch of public finance, and his reaction to De Viti is understandable in this respect, for De Viti's orientation toward public finance was catallactical.

The object of study in the catallactical orientation is not how government can intervene into the economy to promote some fiscal philosopher's objective function, but rather is how people participate through government to achieve their various ends. The state does not stand above the market economy and its participants. The same people who participate in the market economy participate in state governance as well. Fiscal phenomena are not the product of some ruler's maximizing choices, but rather emerge through interaction among people. This interaction might be beneficial for everyone or nearly everyone, or it might be beneficial for only a few, and costly for many others. The state is treated as a nexus of contractual and exploitive relationships. The extent to which those relationships are contractual or exploitive depends on the constitutive structure of governance that is in place.

As a matter of general principle, political relationships are both contractual and exploitive. It is fine to say that taxes are the prices we pay for civilization. This doesn't mean, however, that the relationship between citizens and state is the same as the relationship between customers and the retail outlets they frequent. A customer can refuse to buy and, moreover, generally can return merchandise that turns out to be defective or otherwise unsatisfactory. There is no option to do this in politics. To say that civilization is being priced too highly and to withhold payment will only land the protester in prison. And there is certainly no point in asking for a refund by claiming that the state's offerings weren't as good as its advertisements claimed them to be.

To speak of a catallactical approach to public finance is not to claim that the phenomena of public finance arise through voluntary interaction among people. It is only to say that those phenomena arise through interaction among people, the very same people as who interact with one another within the market economy. Much of the phenomena of public finance surely arise through duress and not through genuine agreement. This aspect of duress was given particular stress in a good deal of the Italian scholarship on public finance, and which is surveyed in James Buchanan (1960). Benham's review of De Viti reflects an underlying catallactical orientation toward the phenomena of public finance.

## Consent, Duress, and Italian Fiscal Catallactics

The classic Italian orientation toward public finance is catallactical. The phenomena of public finance arise through interaction among fiscal participants. Those participants might comprise only a small subset of the society, as illustrated by models where ruling classes govern the masses. In other settings, those participants might even include everyone in society, as illustrated by models of cooperative democracy. In any case, fiscal phenomena are objects to be subjected to scientific explanation just as surely as are market phenomena. The size of state budgets, the distribution of those budgets across programs, and the sources of revenue that are used are all objects for fiscal explanation within the Italian orientation.

The Italian tradition in public finance has been soberly realistic. Whether people will support market or state provision of particular services will depend on which source of supply is less expensive to them. State provision may be cheaper for some people while being more expensive for others. If so, divisions of opinion will exist, with the outcome to be resolved through the exercise of political power as this is channeled and organized within some particular political framework. Whether the resulting outcomes are thought to be beautiful or ugly when appraised against some normative standard is beside the point. In sharp contrast, for Henry Simons and for those who work in the generalized Edgeworthian tradition, it is only the degree of congruence between norm and reality that matters. For these writers, what is important about a theory of public finance is not that it provides a framework for scientific explanation, but that it provides a systematic framework for social criticism. For Italian public finance, however, theorizing about public finance was directed at scientific explanation.

This explanatory orientation is illustrated nicely by Maffeo Pantaleoni's (1883) effort to set forth a framework for explaining fiscal choices within Parliament. To be sure, Pantaleoni did not develop any type of theory rooted in some model of collective action. While a few early works on voting and politics had been published by the time Pantaleoni wrote, there was no body of scholarship devoted to such issues to which he could have referred. Pantaleoni was exploring largely uncharted conceptual territory in his formulation that fiscal outcomes reflected the operation of the average intelligence in Parliament. For its time, this formulation was a relatively sophisticated attempt to assert that budgetary outcomes are as much subject to scientific explanation as are market outcomes, though different analytical formulations and constructions will be required because of differences in the underlying objects of examination. The same principles are at play in the generation of fiscal and market outcomes, only they play out differently because of various institutional and organizational differences. The challenge for a theory of public finance is to generate explanatory schema that are comparable to those that economists develop to explain market outcomes.

Pantaleoni's recourse to the average intelligence within Parliament is not all that different from the use of representative agent modeling in macroeconomic theory today. Both constructions are devices for achieving analytical tractability in dealing with complex phenomena. There are good grounds for thinking that the price of taking this approach to analytical simplification is too high, which in turn has led to searches for some alternative line of formulation for explaining such complex choices without resorting to some single-agent formulation. Nonetheless, what is particularly significant is that Pantaleoni articulated an approach to explanation that was rooted in a realistic notion of human capabilities, along with a recognition that the accretion of institutions and procedures over time simplifies the making of such choices.

Indeed, Pantaleoni's approach to fiscal explanation can readily be detected in a wide variety of contemporary literature, even if no explicit recognition is given to Pantaleoni. It is a very short step from Pantaleoni's average intelligence within Parliament to the median voter model, as well as to models of probabilistic voting. Donald Wittman's (1995) widely cited book about the economic efficiency of democracy can be readily seen as an extension and continuation of themes set in motion by Pantaleoni. Moreover, Pantaleoni's emphasis on gradual accretion and incrementalism anticipates nicely the empirical approach to budgeting associated particularly strongly with Aaron Wildavsky (1984).[6] Had Pantaleoni's work been initially articulated within the context of Anglo-Saxon public finance, it is quite likely that he would have been recognized as one of the founders of these various lines of inquiry.

In most of the Anglo-Saxon literature on public finance, private goods are the province of markets and public goods are the province of the state. This distinction falls out of the strongly normative orientation that seeks to use public finance as an instrument for intervening into market arrangements to promote some notion of social welfare. The Italian orientation sought mostly to explain why states did some things and not others. This approach to explanation is illustrated nicely by Giovanni Montemartini (1900). All political programs are enterprises, only they are politically-based and not market-based enterprises. The success of any enterprise will depend on its ability to attract customers sufficiently to recover its costs and return profits to its investors. It is conceivable that a political enterprise could do this while providing net benefits to everyone. Indeed, this is the standard vision of political enterprises in the Edgeworthian orientation toward public finance, as illustrated by normative theories of the optimal supply of public goods. Montemartini, however, recognized that political enterprises may well be beneficial to some while at the same time being harmful to others. Indeed, in many cases this very harmfulness is necessary to render the enterprise beneficial to others. A municipal bus service that offers heavily subsidized fares to regular riders, with those subsidies being financed by taxes levied on non-riders, is a paradigmatic example of this distinction. The ability of this bus service to survive means only that it is providing net benefits to a sufficiently strong subset of people; that survival may well be imposing net burdens on many people.

In the normative, choice-theoretic approach to public finance, excess burden is one of the key analytical constructions. Excess burden is the basis of the various sacrifice theories of taxation, and is also central to the related formulations of optimal taxation. The excess burden analysis involves the claim that a tax imposes two distinct types of burden: one burden is the revenues that are transferred from taxpayers to the state, the other burden is the additional loss of utility that taxpayers suffer because the tax induces them to shift their pattern of activities in response to the tax. All taxes have excess burdens, but some have more than others.

From the point of view of an explanatory theory of state activity, excess burden is a peculiar construction. Luigi Einaudi (cited in Buchanan 1960, pp. 39-40) stated as much in referring to the standard tax analysis as involving an “imposta grandine.” A tax was simply inserted into the economy for no good reason, and the damage was appraised. In such an exercise, it would seem reasonable to insert the tax in the least damaging manner possible. But why insert the tax at all? The answer, of course, is that the tax is but one side of the fiscal transaction, with some state program representing the other side. Following Monetmartini, we can distinguish between cases where this budgetary operation is beneficial to all from cases where it is beneficial to some and harmful to others. In the former case there can be no excess burden, because the tax is a necessary part of a fiscal operation that improves circumstances for everyone. In the latter case, circumstances for some are improved while they are diminished for others. Even in this case, however, no general claim of excess burden can be advanced, as excess burden is an alien concept for a catallactical approach to public finance, as Wagner (2002) explains.

**Wicksell and the Italians**

Steven Medema (2001) surveys the translated Italian scholarship on public finance, as represented by the essays in *Classics in the Theory of Public Finance* plus De Viti De Marco. Medema argues that the Italian works are inputs into the Wicksellian formulation, as illustrated by Medema’s title: “Wicksell’s Reconciliation of the Disparate Elements of Italian Public Financed.” To somewhat similar effect, Buchanan (1967, p. 285) claims that in “any over-all evaluation of the history of fiscal thought, Wicksell alone commands the heights of genius.”

Wicksell’s formulations in public finance are clearly worthy of the attention they have received. It does, however, seem difficult to maintain the claim that Wicksell’s work completed the initial but rough Italian efforts. Wicksell clearly improved on Pantaleoni in recognizing a structure to Parliament where individual members differed in their interests and their sources of electoral support. Pantaleoni passed over all this by simply invoking some claim about the average intelligence within Parliament.

Wicksell, however, was not interested in developing some explanatory model of actual Parliamentary budgetary conduct. Had he done so he would have been led in the direction of constructing models of fiscal process, perhaps even arriving at some form of median voter model within Parliament, as an alternative to Pantaleoni’s average intelligence formulation. Wicksell’s interest, though, lay in describing institutional circumstances under which the principle that budgetary operations should be beneficial to everyone could be instantiated. Wicksell sought to describe institutional circumstances under which everyone could benefit from their participation in the fiscal process. The Italians did not take this step of mapping an explanatory model of fiscal conduct and action onto some formulation of mutual gain through fiscal participation. The Italians sought to formulate explanatory models of fiscal conduct and process, and much more fully than did Wicksell, but did not seek to lay down some reformist program that might convert the fiscal process into an arena for general gain.

The claim that Wicksell completed work that the Italians left unfinished rests upon a significant and disputable sociological presumption, namely that it is genuinely meaningful to speak of everyone as participating as equals in fiscal processes and activities. Another noteworthy element of the Italian intellectual landscape during the classical period of Italian public finance was the formulation of notions of political processes as driven by competing and circulating elites.[7] The theory of ruling elites denies that it is meaningful to speak of everyone as participating in political processes on equal terms. Some people are simply more equal than others, and it can be no other way. In modern democracies, for instance, nearly all politicians are university-educated members of the professional class. In no way are democratic Parliaments miniature representations of the citizenry whom they purportedly represent. To be sure, Wicksell presumed that it would be possible, at least in a relatively small and homogeneous nation, to develop a sufficiently refined system of proportional representation that would extend the degree to which participation might genuinely occur.

Bertrand De Jouvenel (1961) explains nicely the impossibility of such participation. Suppose there is a very small parliamentary assembly of 100 people. It will have to make a sequence of fiscal choices. Each choice will include a program of expenditure along with a proposal for covering the cost. Amendments are possible, and there are several dozen programs on which decisions must be reached.  De Jouvenel asks how such a parliamentary body can do its work while adhering to the principle of full and equal participation for everyone.

Even if each member can get his points and arguments across in 24 minutes on any particular budgetary issue, it will take a full week's work to deliberate over one issue.  And this is just for the deliberation.  Prior to participation in the deliberation, there will be necessary reading and studying in preparation for the deliberation.  In actual parliamentary assemblies, it is difficult to get any but a few members to read most material, and it is certainly impossible to get the full attention of all members on a full-time basis week after week.  As a result, decision making will devolve to subsets of the assembly.  Cliques will form and some people will be more equal in their participation than others.  In some settings, those who participate most might be those who have the highest stakes in the issue.  In other settings, it might be those whose opportunity cost of time is lowest.  In any case, though, political processes will be propelled by governing elites, in sharp contrast to notions of universal participation.

It could well be argued that the Wicksellian formulation represented a effort at utopian theorizing, in that a theoretical effort was directed at an effort to instantiate a utopian vision.  While in the post-enlightenment period utopia has come to connote some desirable condition to be sought after, its original meaning was strikingly different.  It derivation is from *ou topos*, meaning not a place or no such place.  The Italian approach to elites, and also the resulting implications for public finance, is surely more consistent with the original notion of utopia.  Italian public finance was realistic and not utopian, and one could not be both; the Wicksellian vision was utopian. Whether a utopian vision can also be realistic depends, among other things, on which side of the enlightenment one stands.

**Fiscal Illusion, Rationality, and Behavioral Economics**

In this reflection of the contribution of Italian public finance upon Anglo-Saxon public finance, some mention must be made of the theory of fiscal illusion, even though Puviani has not been translated into English, though he has been translated into German. Buchanan (1967) provides a précis of Puviani, but there is also a substantial journal literature on fiscal illusion, most of it heavily empirical in character. Puviani's work has had difficulty in gaining acceptance among economists because notions of rationality make claims about illusion that seem to border on being assertions of irrationality.

Consider the simple claim that the form in which liabilities are presented to taxpayers can affect their perceptions of cost and, hence, their willingness to support state programs. In this vein, taxes that are withheld from paychecks might seem less burdensome than settings where taxpayers had to write checks to the government. If so, however, some simple arithmetic of rationality would seem to be violated. Fiscal illusion involves the claim that the form through which taxes are extracted can influence taxpayer perceptions of the burdens they are bearing. There is no easy place for such notions in economists' standard presumptions about rationality.

One of the interesting developments in economics in recent years, however, has been along the various boundaries between economics and psychology, what is now often referred to as behavioral economics. Indeed, the *Journal of Economic Behavior and Organization* is located along these boundaries. It seems a quite plausible speculation that with the growth of scholarly interest in this area, the theory of fiscal illusion will finally move out of the backwaters of fiscal scholarship into one of its main currents. Domenico Da Empoli (2002) provides an elaboration of some themes in Puviani that offers an approach to incorporating fiscal illusion into the territory explored jointly by fiscal psychology and public choice.

**Public Choice and Italian Public Finance**

In his forward to the German translation of Puviani (1903), Gunter Schmölders states that "over the last century Italian public finance has had an essentially political science character. The political character of fiscal activity stands always in the foreground. . . . This work [Puviani] is a typical product of Italian public finance, especially a typical product at the end of the 19th century. Above all, it is the science of public finance combined with fiscal politics, in many places giving a good fit with reality." This translation was published in 1960, nearly ten years before any notion of public choice entered the academic vocabulary. Where Schmölders speaks of political science and political character, we may now recognize that he was connecting Italian public finance to public choice, which, in turn, can be described simply as the application of economic theorizing to political phenomena.

Public choice theorizing has, of course, now become a global scholarly enterprise. It is surely arguable that had the Italian tradition in public finance emerged instead in the English-speaking world, the public choice revolution would have occurred half a century earlier. Even today, however, the public choice revolution is far from complete. Many textbooks in public finance still ignore public choice, or perhaps give one or two chapters to public choice material, along with chapters devoted to propositions about optimal taxation and second-best pricing for public enterprises. Public choice has revolutionized public finance, along with such related fields as regulatory economics, but that revolution is incomplete, and may always remain incomplete. Power rarely likes to hear truth spoken to it, to borrow from a masterful book by Aaron Wildavsky (1987). The Italian tradition in public finance is clearly the headwaters of public choice theorizing and of the catallactical approach to public finance. The *Journal of Public Finance and Public Choice* is particularly noteworthy in this respect, because it combines public finance and public choice, and relates both to the heritage of Italian public finance, thereby promoting an accurate intellectual genealogy.

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## Endnotes

[1] I am grateful to Domenico Da Empoli for helpful advice and suggestions in preparing this paper.

[2] For book-length treatments of Cameralism, see Dittrich (1974) and Small (1909). Some recent papers are Tribe (1984), Backhaus and Wagner (1987), and Wagner (forthcoming).

[3] The only treatise in English is Antonio De Viti De Marco (1936). The bulk of the remaining works appear in Musgrave and Peacock (1958), which contains papers by Maffeo Pantaleoni, Ugo Mazzola, Giovanni Montemartini, and Enrico Barone. In addition to these works, I consider Amilcare Puviani's work on fiscal illusion, which is available in German translation, and which has been summarized in James Buchanan (1960)(1967).

[4] It should be noted that though the publication date of the book under review was 1934 while Wicksell was published in 1896, De Viti's insightful formulation was originally published in 1888.

[5] This clash cannot be attributed to deep normative differences, as De Viti, Benham, and Simons were all classically liberal in their political orientation.

[6] For a treatment of budgeting that incorporates political and administrative considerations as refracted through a public choice orientation, see Kraan (1996).

[7] Some of the main figures here are Pareto, Mosca, and Michaels. For a nice survey, see the essays presented in Ghiringhelli, ed. (1992).