Tax Prices in a Democratic Polity:

The Continuing Relevance of Antonio De Viti de Marco

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Abstract

While Antonio De Viti de Marco was a significant figure within the Italian School of Public Finance that flourished between 1880 and 1940, his theoretical framework also has relevance today. Contemporary theory largely adopts a sequential framework where states act to modify previously established market outcomes. In contrast, De Viti worked with a framework where political and market outcomes were established simultaneously because he regarded the state as an essential productive factor within society. At the same time, however, De Viti did not treat state activity as a particular form of market activity. While he extended the logic of market exchange to state activity, he recognized the need to theorize in light of significant differences in institutional arrangements between markets and states. Collective action was guided by tax prices and not market prices. De Viti's formulation of tax prices demonstrates in turn the important place of constitutional arrangements in his theory of public finance.

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Tax Prices in a Democratic Polity:

The Continuing Relevance of Antonio De Viti de Marco

Antonio De Viti de Marco was a well known participant in the Italian School of Public Finance that flourished between 1880 and 1940, and which was surveyed extensively in James Buchanan (1960). In recent years, the Italian school has been gaining favor among economists and historians of economic thought. Domenicantonio Fausto (2003) presents a wide-ranging survey of the central ideas of the Italian school. Steven Medema (2005), and also (2009, especially Ch. 4), relates the Italian fiscal scholarship to Knut Wicksell's (1958 [1896]) treatment of just taxation in conjunction with modern claims about market failure and government failure. And in 348 controversial pages, Nicolò Bellanca provides a panorama of the Italian School of Public Finance starting in 1883 (with Pantaleoni) and ending in 1946 (with Borgatta), with De Viti receiving more than 20 pages. Bellanca's treatment has proven controversial, as can be seen by reading the sequence: Fausto (1995a), Bellanca (1995), and Fausto (1995b). Bellanca holds that De Viti's *Principles* is noteworthy in the public finance literature only because its fortune followed *pari passu* that of the Italian School of Public Finance, which is to say it shone brightly for a brief time and then disappeared. In Bellanca's words what remains of De Viti's contribution after the decline of the Italian tradition are "… only a few unfaithful, though pedagogically easily transmittable fragments: the state's typology, the idea of the state as a productive factor, the theory of public loan, his position on progressive taxation, and little else (Bellanca 1993, p. 135, our translation)."

While we would agree with Bellanca's characterization that only specific fragments are present in the contemporary mainstream of public finance, we think all the same that De Viti's theory of public finance not only provided a framework of political economy that was creative and imaginative when it was presented but also it continues to offer good scholarly value today. Central to De Viti's theory was his treatment of the state as a productive factor within the division of labor in society, which led him to treat market and collective activity as coeval in society. This coeval treatment contrasts with the Samuelsonian-inspired (1954)(1955) treatment of a disjunction between private and public goods where different analytical principles underlay these disjunctive spheres of activity. For De Viti, both private and public phenomena derive from individual needs and desires, with public needs arising only in consequence of people living in proximity to one another. Most significantly, De Viti treats state activity and market activity as occurring simultaneously, in contrast to the customary sequential framework wherein states act upon prior market outcomes. With respect to state activity, De Viti embraced a democratic frame of reference which led him to use a contractarian style of analysis. In doing so, however, he did not treat the state as just another type of market participant because he incorporated into his analysis significant institutional differences between markets and states. While we agree with Medema (2005) that the Italian theorists sought to bring the state into the ambit of the Marginalist analysis that was underway, we would also note that they did so in a way that incorporated significant institutional differences between markets and states. De Viti's (1936, pp. 33-52) opening chapter explains both that market activity and collective activity reflect individual preferences and that collective activity is not simply another form of market activity due to conflicts of interest among members of the collectivity. As De Viti said later (1936, p, 124): there is "a difference between Private Economics and Public Finance which has noteworthy consequences: namely, that *demand* and *consumption* coincide in Private Economics, whereas they do not coincide in Public Finance. Public goods are consumed by those who did not demand them, as well as by those who did." De Viti's recognition of an institutional distinction between market and state warrants, we believe, our treatment of De Viti as an infra-marginalist as Yang (2001) uses the term.

While this paper treats De Viti's theory of public finance, De Viti's life and work extended beyond his fiscal scholarship. Among other things, he spent many years as a Liberal member of the Italian parliament. Augello and Guidi (2005) present a collection of essays on Italian economists in Parliament. De Viti's parliamentary activities are explored in Cardini (2003), who in Cardini (1985) presented a biography of De Viti. Also noteworthy regarding De Viti's contributions to liberalism and democracy are the essays collected in Antonio Pedone (1995). De Viti also maintained a strong interest in the history of economic thought, as Manuela Mosca (2005) explains.

1. De Viti and the Italian School of Public Finance

While the Italian School of Public Finance was a significant sociological phenomenon, any collection of creative scholars will entail numerous points of difference among those scholars, as the members of the Italian School exemplified. The one point of homogeneity among the members of the Italian School was their incorporation of political institutions into fiscal analysis. For those scholars, public finance was political economy, with that compound term understood to involve a genuine integration of polity and economy. On the one hand, fiscal phenomena were to be understood in terms of such economic categories as preferences and costs. But on the other hand, the explanation of those phenomena was to be articulated in a manner congruent with the political framework through which fiscal outcomes emerged: political entities had distinctive features that set them apart from ordinary market-based entities.

With regard to this integration of political and economic activity into a single analytical framework, Wagner (2003) argues that the Italian School would have been recognized as the source of public choice scholarship had not a generation lapsed between the demise of the Italian School and the emergence of public choice. It is particularly instructive in this respect to consider Gunter Schmölders's (1960) Foreword to the German translation of Puviani (1903): “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 is a typical product of Italian public finance, especially a typical product at the end of the 19th century. Above all, it is a science of public finance combined with fiscal politics, in many places giving a good fit with reality (Puviani 1969 [1903], p. 8, our translation).” It is particularly noteworthy that this translation was published about ten years before public choice began to appear as a term in academic use.

With respect to political frameworks, the Italian scholars pursued two disjunctive strands of thought, though often with individual scholars contributing to both strands. One strand was non-democratic in character, and stressed the prevalence of elites and ruling classes in political processes. This strand of thought produced much of analytical significance, and we would not want to sleight the value of this strand of thought. For instance, the theory of fiscal illusion set forth by Puviani (1897)(1903) fell within the non-democratic strand of the Italian School. Furthermore, such Italians as Gaetano Mosca, Roberto Michels, and Vilfredo Pareto emphasized ruling élites and their circulation. Elements of class are clearly present in democratic systems, and this recognition led De Viti and the other members of the Italian School who worked mostly with democratic systems to leave room for non-democratic features as well. In this respect it is worth recalling De Viti’s dual career path. He was a professor of public finance in Rome, and in that capacity published a creative and seminal book on the theory of public finance in 1888, and with that book undergoing revision and expansion until the last revision appeared in 1928. Over much of that period when De Viti was pursuing that revision and expansion, he also served as a member of the Italian Parliament as a member of the Liberal party. It would be quite far fetched to think that De Viti acted schizophrenically in producing work as a theorist that bore no relation to his work as a member of parliament.

While constructing theories of public finance is a different activity from acting on fiscal matters as a member of parliament, it is surely more plausible to think that De Viti could recognize the contours of his theoretical framework while engaging in his parliamentary activities. De Viti's theory of public finance is a work of theory and not a practical manual of how to operate as a member of parliament. As a work of theory, however, its analytical framework facilitated connection between theory and practice: members of parliament could surely recognize an abstract rendition of their activities in De Viti's theoretical formulation.

The democratic strand of Italian public finance extended the logic of markets and exchange to the state, only it did so in a manner that took into consideration institutional differences between states and markets. This strand of thought explored state activity through a contractual framework, recognizing that this use of contract was abstract, in contrast to the real presence of contracts in market relationships. In his essays on De Viti, Sergio Steve (1997)(2002), and also Einaudi (1953), cautioned against scholars who seek to dress up their work by linking it to precursors. We do not seek to construct any such linkage here. To the contrary, we seek to incorporate De Viti into what Kenneth Boulding (1971) called the extended present. By this, we mean that De Viti's theoretical formulations are of contemporary as well as of historical value, as perhaps exemplified by Wagner's (2007) effort to render a restatement of the theory of public finance from an essentially Italianate orientation. De Viti de Marco's contribution to the understanding of fiscal matters is so thorough and internally consistent that it represents an indispensable basis for a genuine understanding of the public finances in democratic regimes, as Vitaletti (1996) recognizes.

Steve's reference to precursors warrants one final remark before entering the substance of our paper. De Viti wrote in Italian, on subjects and with methods outside the mainstream of his discipline. His *Principles* is a marvel of scholarship. Yet, the language barrier has given rise to adverse selection, and in two forms, one relating to the translation of De Viti and the other relating to the translation of other works of the Italian School. De Viti's 1928 edition of his Principles was the first work of the Italian School translated into English in 1936. Soon thereafter the book was reviewed in the *Journal of Political Economy* by Henry Simons, who opined that De Viti's book "is revealed to him not as a great book but as a monument to confusion," and who continued by asserting that "there is not a single section or Chapter which the reviewer could conscientiously recommend." Such a negative review from a respected fiscal scholar published in one of the premier professional journals surely did not inspire fiscal scholars to study De Viti or other contributions from the Italian School.

In 1958, Richard Musgrave and Alan Peacock brought out a volume of 16 translations (plus a paper originally in English from Francis Edgeworth) of what they titled *Classics in the Theory of Public Finance*. Included in that volume was a selection from Mazzola (1890), who has come to be treated as the representative agent of the Italian School, as is exemplified by the treatment of Italian public finance in Kaalyap's (2004) history of fiscal thought. The trouble with this presentation of Mazzola as representing the Italian School is that it obscures the truly novel features of political-economic interaction that were of central significance to the Italian school. As we shall explain below, Mazzola tended to emphasize continuity between market and state, in contrast to the major portion of the Italian scholarship which focused on discontinuities along the boundaries of market and state.

Furthermore, translations of Pantaleoni and Montemartini also involved selections that appeared to require a greater measure of continuity than was representative of those scholars. For instance, Pantaleoni was presented as arguing that parliamentary actions could be modeled by a simple model of individual choice, ignoring in the process his significant work on the disjunction between systems of market and political pricing

(Pantaleoni 1911). Likewise, Montemartini was presented as contributing to the theory of public enterprise where the reality is that his theory of political enterprise bears about as much relation to the Anglo-Saxon approach to public enterprise as De Viti's approach to public finance bears to Henry Simons's (Montemartini 1902). In short, the Italian School did not fit comfortably within the confines of the Anglo-Saxon effort to apply Marginalist principles straightforwardly to matters of state, even though the aforementioned translations were amenable to such a Marginalist interpretation.[1] While De Viti and the other members of the Italian school embraced Marginalist principles, they did so in disjunctive fashion by bringing into the analytical foreground institutional differences between markets and states.

2. Marginalism vs. the Infra-marginal Character of the Italian School

Until about the mid-eighties of the nineteenth century when De Viti was beginning his scientific career, the Marginalist school was commonly assumed to be synonymous with economic science in Italy, as Barucci (1972) explains. Unlike the Anglo-Saxon tradition that almost totally ignored the role of the state, the state had long occupied a central role in the Italian School of Public Finance. It is no surprise, then, that in Italy the Marginalist theory was extended to the state and found rich expression in economic writings, especially in Mazzola (1890). Even in Mazzola's case, however, it is not fully accurate to speak of a mere extension of the Marginalist model to the state because he treated public and private activities as both complementary and commingled. Like De Viti, Mazzola treated public and private activity as occurring simultaneously and not sequentially.

[1] Backhaus and Wagner (2005a)(2005b) explore the disappearance of a distinctively continental tradition in public finance during the 1930s, due largely to extermination, migration, and the disintegration of research networks, along with the reestablishment of the remaining scholars in alien lands where they had to adapt to new scholarly environments.

In Mazzola's formulation, however, choices governing resource allocation are held to depend on individual marginal evaluations in both market and political settings. In pursuing this formulation, Mazzola failed to see that complementary needs and goods emerge within and are satisfied through a political process that does not accommodate the individual marginal adjustments associated with market processes. For instance, votes, unlike market prices, do not allow *marginal adjustments* and hence are not instrumental to political choices. It is meaningful to speak of a choice only if we think of "the majority" as a single actor, and not as some aggregation of individual evaluations. While Mazzola emphasizes the mediating role played by the state, he offers no analysis of the distinguishing features of political markets relative to ordinary markets. Ultimately, one must conclude that Mazzola sought to extend Marginalist principles to public finance without taking into account any distinguishing institutional features.

De Viti recognized that political actions incorporate an arbitrary component that is not present in market processes. At this point the difference between De Viti and Mazzola is evident. Mazzola believed that the mechanism underlying the equilibrium between public and private use of an income unit is an opportunity cost calculation at an individual level, which, however, has to be aggregated. Yet, the absence of a political market as an aggregating mechanism gave rise to Wicksell's negative reaction to Mazzola. Wicksell's critique could not have been extended to De Viti who wrote (1936, p. 114): "There is no doubt that our income is the index by which we measure the total of our consumption, present and prospective, individual and collective. It is axiomatic that we consume *in proportion* to income. But this proportion, true for the whole, may not be true for the part". De Viti fully realized, among other things, that in democracies choices are majoritarian in nature. He concluded that the equilibrium resulting from public choices holds at some aggregate level but not at each individual's level in the community. Since choices are made within a political process and not at an individual level, the logic of a utility chain is broken unless one imposes to an utterly abstract framework. In place of such abstraction, De Viti introduces a model of the co-operative state as a limiting case where unanimity allows extension of the logic of market exchange to politics, while also recognizing that absent unanimity no state could be fully co-operative.

There are two theoretical snares that the participants in the Italian School sought to avoid. One snare, which caught Mazzola, was to treat state activity as fundamentally indistinct from market activity. If market allocation is explained with reference to cost and demand, so is political allocation. This snare fuses taxing and spending into one unified operation, with collective action being just one particular reflection of market interaction. This snare is illustrated nicely by various claims to the effect we get what we want through democratic processes, ignoring the simple observation that a "we" can't do anything or sense anything. This snare is reflected in quite a number of recent works on political economy, including Becker (1983), Wittman (1989)(1995), Persson and Tabellini (2000), and Besley (2006), that argue that political processes have the same or at least closely similar Pareto-efficiency properties as market processes. At base, these various formulations assimilate political action to the logic of choice, in contrast to treating political action as a process of interaction within some particular institutional or parliamentary framework. Yet a parliament is not a sentient creature: it is a "*we*," and a "*we"* can't choose. To be sure, we speak of collective bodies choosing all the time, but behind that speech lays recognition of structured interaction among participants. A measure enacted by a parliamentary assembly stands at the end of a parliamentary process that governs the interactions among the members of parliament. Taxation converts private property to collective control, but the precise character of that control and how it is used will be governed by the parliamentary rules that govern relationships among the members of parliament.

The second snare dominated Anglo-Saxon public finance but did not catch the theorists of the Italian School. This snare is to treat taxation as a type of uncaused cause. Taxes are somehow inserted into a society and their uncaused insertion can be appraised against two metrics: excess burden and ability to pay. The excess burden notion treats a tax as if it were a hailstorm that imposes nothing but losses.[2] With taxes conceptualized in this manner, a comparison of taxes in terms of their excess burdens becomes an intellectually intelligible activity. Excess burden provides the analytical point of departure for the literature on optimal taxation, and likewise pervades notions of taxation based on ability-to-pay. Since for the ability-to-pay principle the expenditure side is immaterial, equity can be pursued only through taxation as described by the various sacrifice theories.

These theories of taxes as unchosen impositions stood outside De Viti's frame of reference, for that frame of reference sought not to advise some fictional despot, benevolent or otherwise, but to explain how different institutional frameworks promoted or impeded the activities of what was regarded as a cooperative state. A monarch or despot may stand outside the system over which he rules, but there is no such outside position in a democratic polity. A tax cannot be *imposed* on everyone. At least some people must *choose* the tax, and must do so because the combination of less market output and more political output generates a higher level of utility for them. Without doubt, taxation also generally involves a good number of people in paying for output they do not value, or value less than the sacrificed market output the tax makes necessary. Those people are burdened directly by the tax, and then again as they rearrange their market conduct in response to the tax extractions imposed on them. Still, there is no readily sensible

[2] The expression "hailstorm tax" (imposta grandine in Italian) was coined by Luigi Einaudi. With this expression, Einaudi criticized those economists who treated revenues independent of expenditures. When public expenditure is ignored, taxation performs a negative role in the economy that is wholly comparable to the devastating effect of hailstorm on crops. The treatment of taxation in isolation is alien to the Italian tradition, especially in its democratic version such as was Einaudi's and, of course, De Viti's. See Einaudi (1965), p. 183.

procedure of aggregation that can yield excess burden. The public finances reflect individual evaluations to some extent, and with that extent being governed by constitutional frameworks, but the public finances are not just another form of market: the contributors to the Italian School avoided both snares.

De Viti's theory of public finance was not exclusively marginalist, and we describe it as infra-marginal, similar to Yang's (2001) treatment of economic theory that gives considerable scope to discontinuity. Within the Walrasian construction that carried forward the Marginalist banner, the state was an artificial appendix that was added to the economic system after general market equilibrium had already been achieved. The state was nothing but an equation to close the model. While Mazzola clearly revealed some sense that the state was a different kind of entity, his theoretical formulations in the end nonetheless were straightforward Marginalist constructions. Like the marginalists, De Viti and the other theorists of the Italian School accepted the marginal utility explanation of market prices, only they didn't extend that explanation fully to political- or tax-prices because they recognized that not all individuals would have their preferences fully satisfied through collective action even though collective action was responsive to individual preferences. It is this unwillingness to engage in full and perfect extension that leads us to describe them as theorists of the infra-marginal. Yang uses the term infra-marginal to describe a concern with total conditions, in contrast to the customary concern with marginal conditions only. De Viti did not reject a concern with marginal conditions, but only regarded that concern as insufficient for explaining collective action, so we describe him as an infra-Marginalist to denote the disjunction between markets and states that characterized De Viti and the Italian School.

In 1888, two years before the publication of Mazzola's book, De Viti published *Il Carattere Teorico dell'Economia Finanziaria*. In that small book, De Viti set forth the theoretical framework, the elaboration of which he worked on the remainder of his scholarly life, recalling also that he spent a good deal of that time engaged as a member of the Italian parliament. De Viti's approach to the theory of public finance was not congruent with the Marginalist view of the state. We would note, however, that this incongruity was not due to any rejection of marginal utility principles applied to value and choice but rather was due to his recognition that those principles could not be applied straightforwardly to fiscal phenomena and political processes. De Viti embraced the claim that the principles of utility and cost apply to the conduct of state activity, while at the same time recognizing that they must play out differently within states than within markets as a result of the different settings for individual interaction.

De Viti did not conceptualize a market equilibrium to which state activity is subsequently added. In this rejection of a sequential style of theorizing in favor of a simultaneous style, De Viti took an alternative path from some of the newer work on political economy represented by Persson and Tabellini (2000), Drazen (2000) and Besley (2006). For De Viti, the state was a necessary input into all productive activity: market production was impossible without state activity; likewise, state activity requires inputs created through market activity. To achieve a sort of semantic consonance with Sraffa's (1960) notion of basic goods, De Viti's state could be defined as a "basic factor" that was ever present in private goods and services, though it was not as tangible and easily identifiable as land, capital and labor. It was, in fact, a pervasive institutional or organizational factor. Even though the semantic consonance with Sraffa accounts for the state as an essential factor, that consonance also hides an equally important component of De Viti's conception of the state, namely the non-objectivity of the productive contribution involved: after all, De Viti embraced the value principles of the marginal theorists, only thought that they played out differently in political than in market settings. The parallel of De Viti's concept of the state as productive factor with Sraffa's basic goods is justified with the analogous role that the concept plays in the two analytical constructions. Specifically, in the De Viti case each unit of income has a tax inborn in it, and a tax so conceived logically equals basic goods. Such built-in tax has a general value because no income unit can be produced without it. This said, all other differences remain, especially Sraffa's contention that basic goods, despite the role that they play, are private in nature and are dependent on the production techniques, not on political decisions. As one of the referees has remarked, this parallelism can be viewed as a weak point, but we think that the similarity is appropriate all the same from the heuristic point of view.

3. A Constitutional Typology of State Forms

De Viti viewed the state as a necessary organizational factor within a society, but he also recognized that states could take on different forms. In his original 1888 book, De Viti set forth three different constitutional forms for state activity, each of which would involve different relationships between state and market, and yet any of which would entail simultaneous activity within the respective precincts of state and market. These three forms were described by De Viti as:

1) tutorial-altruistic;
2) monopolistic-egoistic; and
3) co-operative.

While De Viti (1888) gave only brief attention to the tutorial-altruistic state, and dropped this form entirely in the subsequent statements of his theory of public finance, it is nonetheless informative to consider this form of state because it yields insight into De Viti's theoretical framework. The conception of the state as a *tutorial* state, which has played such a large role in post-war II economic policies, provided the very web and texture of what was to become the benevolent despot paradigm that has been the central object of criticism by public choice scholars. The tutorial state not only raises problems of democratic legitimacy, but it ends up by describing an extreme Hobbesian paradigm. The sacrifice theories, about which De Viti showed no interest, reflected this Hobbesian vision of state, even if protagonists of those theories sought to assimilate their vision to that of a benevolent as distinct from an ordinary despot. De Viti's disinterest in the sacrifice theories had nothing to do with the impossibility of making interpersonal comparisons of utility and everything to do with his recognition that what matters in taxation is the contribution that the state as an organizational factor secures for its individual taxpayers.[3] On this basis, it is public expenditure rather than taxation that offers valuable insight into the organizational factor. As is well-known, the ability-to-pay principle considers the tax side only; in so doing the state behaves in an arbitrary way, unless the ability-to-pay principle is assumed to be objectively measurable. Indeed, Morgenstern (n.d.) attributes the continuing interest in the ability-to-pay principle to its ambiguity. That ambiguity allows an analyst to invoke this principle in offering appraisals of tax systems without fear of having to confront disconfirming evidence. In sum, the Marginalists' view of the state, including the ability-to-pay principle, was incompatible with the logic of De Viti's theory of public finance.

While De Viti's object of interest in his theoretical work was the co-operative state, he also recognized that coercive elements were present in even the most democratic of states. Hence, he maintained the monopolistic-egoistic model in the final version of the *Principles*. Though De Viti was interested in the cooperative state, he never wavered from a conviction that the cooperative state is an embodiment of his personal theoretical construction achieved through the analysis of the existing forms of state existing in his time. The state viewed as an entity external to the economic process involves a non-democratic perspective to be consistent. In a non-democratic context, the state may be

[3] The following excerpt clearly illustrates De Viti's critique of the ability-to-pay principle and his unreserved support of the benefit principle. "One tendency [the ability-to-pay principle] of those who build their system on the arbitrary element and enlarge it step by step, until they arrive at the affirmation that the tax is an act of the sovereign will of the State, independent of the economic substance of the exchange of tax-payments for public services."…"The other tendency [that based on the benefit principle] is that of those who, starting from the exchange-relationship between taxes and public services, build on the natural play of economic forces, reducing as much as possible the margin of what is arbitrary, in order to achieve a more stable political equilibrium" " (De Viti de Marco 1936, pp.116-117)

either tutorial or despotic, with the latter acting either benevolently or malevolently. The non-democratic state is not homogeneous by necessity and many alternatives may arise. The range goes from a purely Hobbesian despotism – in which forms of apparent altruism cannot be excluded if instrumental to the dictator – to pure altruism, whose peculiarity is the nullification of the despotic-egoistic component in favor of the altruistic component. On this point, the concept of cooperative state is greatly innovative and genuinely democratic despite the fact that the cooperative state in the real world is characterized by the coexistence of cooperation with some forms of monopoly.[4] In this treatment of both the co-operative and monopolistic forms of state, De Viti recognized that reality typically presented a mixture of the two forms. Regardless of form, positive analysis could be brought to bear on the activities of state. The precise character of those activities, however, would be influenced by the manner in which the state was constituted, as we shall explore when we examine De Viti's treatment of tax prices. The theory of statistics tells us that any decision process will involve two types of error, along with a tradeoff by which greater avoidance of one type of error leads to an increase in the other type. De Viti recognized something similar with respect to constitutional arrangements, in that it is impossible to secure a wholly co-operative outcome with no semblance of the monopolistic state, for to do this would be fall into the Marginalist snare of fusing market and state.

The overriding principle of De Viti's philosophy is that the state, as provider of public goods and services, should supply goods and services that are demanded by all members of the community. According to De Viti, the productivity of public services can, at least in principle, be tested through the comparative static exercise of transferring services between private and public employments and observing the impact on the present value of aggregate income flows stemming from that transfer. Central to De Viti's formulation was the presumption that the state spends *differently* from individuals. We may doubt the

[4] On the consistency between De Viti as a scholar and as a member of Parliament see Cardini (2003).

practicality of De Viti's test while recognizing that it presents insight into De Viti's reasoning about state activity and how it is simultaneous with market activity. Furthermore, De Viti's conclusion that public choices might be more efficient than the market ones is illuminating in understanding why De Viti rejected the minimal state hypothesis. Our interpretation is corroborated by De Viti's extension of the *minimum means* approach to public services(1936, pp. 46--48). This extension, however, strikes a jarring chord. The last forty years of studies on government failures and bureaucratic behaviors have shown how the *minimum means* constraint can be finessed by the government via fiscal illusion. Such fiscal illusion is not created exclusively by the maneuvering of politicians. Bureaucracy too plays an active role in creating and widening fiscal illusion due to its informational advantages on costs as Eusepi (2006) explores.

Buchanan (1960) advances the cooperative-monopolistic duality in theories of state as the distinguishing element in the Italian School of Public Finance; moreover, he used this duality to create a watershed between Italian fiscal theorizing and the Anglo-Saxon fiscal tradition. This duality is theoretical and categorical and is not meant to apply cleanly and concisely to reality, where some combination of forms is possible. A cooperative state maps into a notion of a polycentric polity, whereas the monopolistic state maps into a model of a monocentric polity (Ostrom 1997). Even a polycentric polity may contain some nodes that are relatively free from competitive challenge. Similarly, a monocentric polity might contain other nodes of potential contestation that cannot be eliminated and so must be accommodated. Political power is never truly absolute, but neither is it ever non-existent.

For De Viti, the cooperative state represented an ideal state wherein state activity would be organized in such a way that those activities conferred gains on all affected parties, in sharp distinction to conferring gains on some while imposing losses on others. It is the contractual vision of the state rather than Einaudi's subsequent analytical justifications, that makes the so-called “hailstorm tax” incompatible with De Viti’s theoretical framework. The “hailstorm tax”, in fact, is conceived as a tax stemming from a non-democratic political setting where citizens and the state are morally unequal. More generally, the logic of a tax-price is incompatible with all versions of the sacrifice theory and, hence, with the ability-to-pay principle, the success of which can, as already mentioned, be best ascribed to its ambiguities.

In a nutshell, De Viti’s dualism is of the institutional kind. His monopolistic state, which is the polar alternative to his cooperative state, mimics the Hobbesian context *lato sensu*. This is why De Viti paid little direct attention to the monopolistic state. He conceived of it as a latent institutional alternative that was always capable of invading and eroding the co-operative state. While monopolistic elements can invade the co-operative state, De Viti stressed an opposing direction of relationship: the contractual constitution on which the co-operative state rests can be a process that offers resistance to elements of the absolute or monopolistic state. This possible source of resistance to the intrusion of monopolistic elements was the ground on which De Viti gave tax-price a central place in the decision-making process on matters of public finance. The whole decisional scenario in the co-operative state is conceived by De Viti as being made-up of two separated, although related, contracts, as emphasized in particular by Sergio Steve (1997), and to which we shall now turn.

4. Market Prices, Tax Prices, and State Action

De Viti distinguished between two types of state activity: those services that were divisible in consumption and those that were not. To be sure, this distinction parallels the distinction between private and public goods that Samuelson (1954)(1955) articulated, but De Viti’s prior formulation included a significant institutional focal point that was absent in Samuelson. Samuelson’s distinction was presented as mapping into distinct realms of activity, with markets providing private goods and states providing public goods. De Viti did not take such a normative tack. His interest was not in generating normative statements about what states should or should not do. Rather, his interest resided in presenting explanations for the actual contours of state activity.

De Viti spoke of collective wants (1936, pp. 37 ff.) and not of public goods. Where Samuelson and most subsequent economic analysis has defined public goods objectively by the equal-consumption condition, De Viti defined collective wants subjectively and in emergent fashion. Collective wants were wants that arose among people in consequence of their living in proximity to one another. Some of those wants might be supplied through market processes, but others would be supplied through political processes. In speaking of collective wants, De Viti most certainly did not attribute some sentient quality to states. What he denoted as collective wants were emergent qualities of interactions among people living in relatively close proximity to one another. A set of people living independently of one another would have their individual wants; should all of those people subsequently come to live in proximity with one another, new wants would develop, which De Viti described as collective wants.

It doesn't follow that those collective wants would be supplied by states, for they could be supplied through market processes. But De Viti's object of interest was state activity, which he treated as stemming from the presence of collective wants. De Viti's notion of a collective want, however, does not correspond to Samuelson's equal-consumption condition: it can correspond to this condition, but such correspondence isn't necessary. A collective want may be shared by everyone within a society, but it could be shared only by some members of a society. To treat this difference between all and some, De Viti distinguished between two forms of contract within the contractual orientation required by his framework of a co-operative state. One form of contract pertained to wants held by some, while the other form pertained to wants held by all. For contracts of the first form, market prices were suitable for financing collective activity; for contracts of the second form, tax prices were the suitable instrument.

Bus service might illustrate a service of the first or specific form. In this case the fiscal principle is the same as the market principle. To describe the fiscal principle as being identical with the market principle for specific goods and services does not imply that states actually will operate in this manner. The market principle applied to specific goods provided by governments requires that consumers support those services through the prices they pay. In this respect, De Viti insisted that fiscal prices should cover the cost of providing specific services. This insistence, however, was advanced as a theoretical point, and there are plenty of reasons why different prices might be put in place through political processes that contained monopolistic elements even within a generally co-operative state. For instance, riders might receive subsidized service made possible by taxes imposed on non-riders. Whether this might actually happen, or to what extent it might happen, depends in turn on the constitutional framework that governs state budgeting. The distinction between specific and general services is theoretically clear, but as a matter of actual practice it is possible for slippage to occur wherein specific services are financed to some extent by tax prices and not market prices. Within the constitutional framework of a purely co-operative state this would not happen, but De Viti also recognized that some monopolistic elements would always be present.

De Viti's primary interest rested with general and not specific collective wants. He thought that specific services could be financed through market prices in principle even if the world of practice gave different results. When it came to general services, De Viti recognized that market prices could not be used and so advanced tax prices to represent the contract between the community of taxpayers and the state. In the case of a general collective want, individual demands cannot be revealed through choices, in contrast to the ability of people to reveal demands by choosing how often to ride a bus. General services must be financed by tax prices because they can't be financed by market prices. But how are these tax prices to be determined? And what does it matter which kind of determination is made?

De Viti recognized that any such determination must be arbitrary. To call such a determination arbitrary is not, however, to say that such determination is ungrounded in principle. For De Viti tax prices were grounded in the principle represented by the co-operative state. This principle, in turn, is reflected in the benefit principle of public finance. But how should the benefit principle be carried forward in actual practice in light of the problems of free riding that were known to De Viti? People can't be asked reliably to place values on state activity because this could be done only for specific goods and services. What must be done instead is to make some reasonable presumption about individual demands. To construct this presumption, De Viti (1936, pp.35-36 and 111 ff.) advances two presumptive hypotheses:

(1) All members of the community consume general services for the survival of the community itself (think, for example, of the constitution of a state, its external defense, and its domestic security.)

(2) The individual income produced can be taken as the best proxy for that individual's demand of public goods.

Using marginal utility theory to fix prices for general public goods was to De Viti both impossible and necessary. It was impossible because such goods could not be supplied through market transactions, and without market transactions it would be impossible for people genuinely to reveal their demands for those services, as distinct from, perhaps, participating in cheap-talk types of opinion surveys. It was necessary because the consonance of state activity with those demands was the *raison d'être* of the co-operative state. In this situation, De Viti's second presumption above led him to claim that a proportional tax on income would create a tax price that supported the co-operative state.

This claim stems from De Viti's view that general public services are necessary inputs for market-based production. With the state being an essential factor of production, each unit of income has a built-in tax liability that in the aggregate is sufficient to finance those general services.

The co-operative state thus requires that a state's general services, as distinct from its specific services, be financed by a proportional tax on all income. In contemporary terms, this would be a flat-rate tax on a comprehensive definition of income because the logic of the co-operative state required an equal tax liability per unit of income. There is no principled reason for claiming that liability was associated with only some units of income, which meant in turn that there could be no exemptions from the tax base. Were exemptions to be created so that some units of income were to escape taxation, the logic of the co-operative state would be violated through a set of discriminatory tax prices. Such a digressive tax would violate the logic of the co-operative state. De Viti was aware of the claims of the sacrifice theories that were often used to support tax exemptions, but these theories were incoherent with reference to the co-operative state. De Viti's call for a proportional tax on all units of income does not, of course, close off all points of controversy about income taxation because income must still be defined in a way that can be administered. Still, what is revealed in De Viti's analysis of taxation and tax pricing is his effort to treat taxation not in some ruling class motif of using taxes to punish and reward but in a contractual motif that is suitable for a society of moral equals governed by rule-of-law principles.

5. Tax Pricing, Economic Calculation and Public Finance

It is well recognized that economic organization on a large scale is impossible without markets and prices. Without prices, it is impossible to engage in economic calculation on anything other than the small scale associated with barter. Prices are necessary to guide economic activity in the presence of scarcity. What holds for action within a market economy holds for action within the state economy as well. Indeed, for De Viti it was meaningless to conceptualize market activity without incorporating state activity. Hence, the problem of economic calculation pertains as much to state activity as it pertains to market activity. Tax prices are as necessary to guide state activity as market prices are necessary to guide market activity. Indeed, it is fully consistent with the spirit of De Viti's analysis to treat states as ecologies of political enterprises (Eusepi and Wagner, forthcoming) and not as some single, hierarchical entity.

Buchanan (1964) provides a useful formulation of the operation of tax prices in this context, and in a way that fits with De Viti's treatment of tax prices. Buchanan postulates a world where a proportional tax is used to finance a collective service for which the income elasticity of demand is unity. On the one hand, individual demands for collective output rise with income. On the other hand, the total amount paid also rises directly with income. The result of this simple model is that all citizens agree on the amount of the public service to support, despite their differing demands. While the parameters of Buchanan's model generated this particular result, there is an underlying theme that reflects De Viti's insight about the co-operative state: citizens whose demands for general collective activity vary in proportion to income can nonetheless reach the same calculation about the relative value of collective and market output under De Viti's approach to tax pricing.

De Viti did not claim that his tax pricing of general collective output would invariably work in the manner that Buchanan subsequently presented. De Viti stated clearly that his presumption that such demands would rise in proportion to income was a hypothesis. As a hypothesis, moreover, it could well hold in the aggregate while not holding among all of the individuals that comprise that aggregate. Secondary redistributions could thus occur within the logic of the co-operative state. Such redistributions would not be systematic, and so would not disturb the central proposition about economic calculation.

This would not be the case if tax claims were made to vary among units of income, as would be the case with a digressive tax as well as with nearly all other features of real-world fiscal systems. With such variability, some people come to face lower tax prices while others face higher tax prices. Presently within the US, for instance, approximately one-half of citizens of voting age face no tax liability under the personal income tax. To be sure, the income tax is not the only source of tax prices within the American fiscal system, but it is a major source. The polar case of the co-operative state that assumes all political decisions are taken under unanimous consent. De Viti was aware of the limitations of this formulation, as illustrated by his recognition that in real-world fiscal systems increases in public expenditures will be demanded by those who do not pay for taxes, and with other taxpayers being in the opposite situation.

It was De Viti's ambition to eliminate this conflict that led him to articulate the place of tax prices within a co-operative state. This alternative perspective replaced the purely normative focus of the ability-to-pay principle with a more positive focus that takes into account how the state acts in reality. In this alternative perspective, the logic of the tax-price - although divorced from the marginal utility theory - emerges once again. In this context, it is necessary to search for a mechanism representing the closest substitute for price. A genuine price mechanism cannot work in a world of indirect "presumptive" demands. But when public services are general, one has to face the problem of how to determine an appropriate tax-price. A proportional income tax, which would charge the same tax bill to each unit of income generated, would also indirectly determine the level of public services through the role that tax-prices play in the political process.

8. Conclusions

We conclude where we began: the Italian School of public finance – specifically in the democratic version exemplified by the work of De Viti de Marco – is of both historical interest and contemporary relevance. The central analytical orientation of the Italian School stresses the simultaneous character of private and collective action, which in turn leads to an entangled vision of political economy in place of the prevalent treatment of separated spheres of political and economic activity. Within this analytical framework, economic calculation is as much a problem for the collective organization of economic activity as it is for the market organization of such activity. Where market activity can rely upon market prices to guide the organization of economic activity, collective activity must be organized through tax prices. The form that tax prices take influences the character of state activity. De Viti's vision of the co-operative state was based on a principle of equality before law and required that general services of state be financed by a proportional tax claim against all units of income.

The creation of other systems of tax pricing, such as characterizes real-world tax systems today, necessarily expands the presence of monopolistic tendencies within the state. While as a theoretical matter the cooperative-monopoly duality described antipodal conceptual options, as a practical matter we are faced with an institutional admixture of cooperative and monopolistic elements. De Viti's constitutionally relevant claim was that the type of mixture between these elements could be influenced by the type of tax system used to finance general collective activities. A proportional tax on all units of income would support the cooperative state because it would work against the use of discriminatory taxation to award those favored by monopolistic positions within the state. More than a century ago the members of the Italian School recognized that the study of public finance requires an explicit attention to politics. This is a point that mainstream Anglo-Saxon public finance has really begun to acknowledge only with the rise of public choice scholarship within the last thirty years or so, as illustrated in exemplary fashion at the textbook level by Cullis and Jones (2009).

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