

**What Kind of State in Our Future?  
Fact and Conjecture in Vito Tanzi's *Government versus Markets***

**Richard E. Wagner**

Department of Economics, 3G4  
George Mason University  
Fairfax, VA 22030 USA

tel.: ++1-703-993-1132

fax: ++1-703-993-1133

[rwagner@gmu.edu](mailto:rwagner@gmu.edu)

<http://mason.gmu.edu/~rwagner>

**Abstract**

This is a review essay on Vito Tanzi's *Government versus Markets: The Changing Economic Role of the State*. The bulk of this book looks backward on the relative growth of government from late in the 19<sup>th</sup> century until recent times when that growth seems to have stopped in many places. Tanzi also looks forward in speculating on possible qualitative changes in the character of state activity through substitution of regulation for taxation. Much wisdom is presented in these pages, and yet the book contains some significant conceptual shortcomings and lacunae due to its apparent embrace of the possibility of measurement without theory. All the same, the book poses significant challenges for scholarship in political economy and public economics.

**Keywords:** growth of government; Adolf Wagner; Wagner's Law; regulation as taxation; states as orders; measurement without theory

**JEL Codes:** H11, K20, L38, N40, P16

**What Kind of State in Our Future?  
Fact and Conjecture in Vito Tanzi's *Government versus Markets*<sup>1</sup>**

Most economists with a serious interest in governmental activity will have encountered, and repeatedly, the scholarly work of Vito Tanzi since he graduated from Harvard in 1967 after writing his dissertation under the supervision of such luminous fiscal scholars as Otto Eckstein (1927 - 1984) and Richard Musgrave (1910-2007). Both Tanzi's career and his body of work to date reflect his well-recognized admixture of theory and practice. While his early career was in academia, even serving as Chairman of the Department of Economics at American University, he is most strongly associated with the International Monetary Fund where he served for more than a quarter-century, with most of that time spent as Director of Fiscal Affairs. His rich menu of experience also includes a stint as Secretary of Economy and Finance for the Italian government, along with consultancies with the World Bank and the United Nations, among other organizations. In short, Tanzi's career is that of the quintessential insider-scholar in the fiscal activities of governments throughout the world. This book reflects his insider orientation. An insider must accept the virtuous and legitimate character of the organizations with which he or she is involved. An insider can still adopt a critical posture at times, yet even criticism takes as given the virtuous and legitimate character of the organizations with which the critic is involved.

This book reflects the posture of a critical insider. The thematic tenor of the book portrays western nation-states in a three-stage sequence of development as passing from infancy into adolescence and then to maturity.

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<sup>1</sup> Vito Tanzi, *Government versus Markets: The Changing Economic Role of the State*. Cambridge: Cambridge University Press, 2011, pp. xiii + 376, \$35.

Infancy was left behind around 1880 when the relative size of government began to expand throughout the western democracies. Adolescence lasted a century and a quarter or so, but now maturity has arrived and Tanzi envisions that the relative growth of government will cease and morph into qualitative change through increasing state regulation. Tanzi's presentation of the historical record is masterful. The quality of his prognostication that the future will bring not budgetary growth but regulatory expansion remains to be determined. Tanzi advances cogent reasons to support his prognostication. All the same, however, he is engaged in a form of measurement without theory, bringing to mind the controversy between Tjalling Koopmans (1947) and Rutledge Vining (1949). What is lacking in Tanzi is some reasonable conceptual framework for illuminating the process that has generated the data he presents and for thinking about the future he thinks might come to pass. After describing Tanzi's historical presentation and future speculation, I shall plumb some of the conceptual lacunae that inhabit his narrative.

### **1. Tanzi's Coming-of-age Tale**

Tanzi tells a story in this book, and it has the form of a coming-of-age tale. He opens by asserting that "there is no more fundamental question in economics than the economic role that the state . . . ought to play in a democratic country with a market economy (p. 3)," having previously asserted that it is the "goal of economists . . . to determine the right balance between state and market (p. ix)." From this point of departure, Tanzi tells a story that starts with governments with

small budgets late in the 19<sup>th</sup> century, and with budgets expanding until late in the 20<sup>th</sup> century. This story is told as a tale of maturation, and with the elements of that maturation including such things as increasing population, lengthening life spans, and a continually shrinking world due to technological developments in communication and transportation.

Where small states were fine as the 19th century ended, maturation throughout the 20<sup>th</sup> century required extensive growth in the states in the OECD nations with which Tanzi is principally concerned. Table 1.1 (p. 9), for instance, presents data for the 17 OECD nations on which data are available back to the late 19<sup>th</sup> century. For those nations, governments on average accounted for 11 percent of GDP around 1870. By 1920 that average had risen to 20 percent, and had risen further to 24 percent by 1937. In 1960 that average stood at 29 percent, at which point what had been a pattern of creeping growth turned into a gallop as the state reached maturity in Tanzi's tale: the average of 28 percent in 1960 reached 42 percent in 1980, and stood at 45 percent in 1996.

Starting in the 1990s, the pattern of uniform relative growth among nations began to change. For 12 of those 17 nations, the relative size of government was less in 2007 than it was in 1990. The exceptions were Austria, Japan, Switzerland, the United Kingdom, and the United States. Among these five nations, moreover, only in the UK and the US did the growth of government march steadily upward, though at a diminishing rate. If states were adolescents late in the 19<sup>th</sup> century, they had matured by the end of the 20<sup>th</sup> century.

According to Tanzi, with that maturity comes cessation in the continual growth of government as measured by budgetary data.

In Tanzi's judgment, the relative quantitative growth in government is over, and the qualitative growth either has started or will soon do so. For Tanzi, this is a welcome development. While Tanzi recognizes the negative effects of high rates of tax and the subsidization of non-productive activity, he views these as mostly things of the past as accompaniments of the growth from adolescence to maturity. Now that maturity has been reached, the state will go forward in a new style suitable for its mature character. That character will include some reduction in tax burdens accompanied by continually growing regulation that Tanzi sees as an unavoidable and even welcome feature of the new world into which we are entering. In Tanzi's view, governments in the 21<sup>st</sup> century will devote increasing effort to improving markets through expanded regulation, with taxation possibly even falling to some extent.

Adolph Wagner (1883) has often been misinterpreted as claiming that growing wealth will bring an ever increasing relative size of government, as summarized by claims that the income elasticity of demand for governmental services exceeds unity. Borchering, Ferris, and Garzoni (2004) show the falsity of this common claim. Even more, Wagner's claim of an "increasing extension of state activity" was more qualitative than quantitative in nature, as Backhaus and Wagner (2005a, 2005b) note. This qualitative change, moreover, fits with Tanzi's theme. Among the OECD nations, recent data show numerous instances of decline in the share of government in GDP, though no decline that would qualify

as dramatic. Table 4.1 (p. 95) shows that for all of the 22 OECD nations for which data goes back to 1960, total taxes as a percentage of GDP were lower in 2008 than they had been at some earlier peak. It should, however, be noted that public debt is excluded from measures of tax revenue, even though government borrowing is just taxation by another name.

Tanzi is a significant and interesting thinker, of this there can be no doubt. He writes as an insider who participates in the conduct of fiscal and regulatory affairs, and to do this effectively brings certain presuppositions in its train. Among these is Tanzi's treatment of government as a coherent entity that acts on some distinct object that is commonly denoted as "the economy." If the economy is an engine that produces goods, the state is the mechanic who keeps the engine running. Tanzi writes as a practice-oriented economist whose arena of practice is statecraft, or as an engineer and not as a scientist (Mankiw (2006). From this orientation, state practices are helpful and virtuous along most margins of action, even if not all margins. The existence of these negative margins, however, does not deny the dominance of helpfulness and virtue but rather is simply an unavoidable feature of the transition from adolescence to maturity. After all, the transition from adolescence to maturity requires time for making difficult adjustments during which state activity may appear to be other than helpful and virtuous.

Tanzi's organization, however, doesn't fit his narrative, and therein lays a significant problem with this book despite its many fine qualities. While I have asserted that this book reflects measurement without theory, I should note that

Tanzi presents both measurement and theory in the book. He does so, however, in disjoint fashion. After an introductory chapter, Tanzi provides five chapters on measurements of government growth in the OECD nations. These chapters are followed by four chapters on various theoretical ideas. The chapters on theory, however, are independent of the chapters on history. Theory does not instruct the assembly of relevant data, nor do data present problems for theoretical articulation. For Tanzi, the relationship between theory and history is additive and separable and not interactive. In particular, Tanzi's data are of macro or global magnitudes, and yet those data emerge from micro-level interaction. In the rest of this review, I shall indicate briefly some of the conceptual problems that accompany Tanzi's narrative and which provide opportunities for alternative scholarly articulation.

## **2. Governments and Markets: Escaping the Centralized Mindset**

By "centralized mindset," Mitchel Resnick (1994) identifies a strong tendency among scholars to attribute any observation of orderly patterns to the choices of some directing or choosing agent. Among the examples Resnick gives are attributing the flight patterns of flocks of geese to the direction of some leader goose and the foraging patterns of ants to the direction of a Queen ant. In contrast to this centralized mindset, Resnick explains how those orderly global patterns can arise as emergent properties of local interaction and not as products of global construction. In this effort, Resnick carries forward the style of analysis that Thomas Schelling (1978) set forth in explaining how systemic properties

often emerge through local interaction and not directly through some act of global construction.

Tanzi's very title—*Government versus Markets*—reflects this “centralized mindset” in portraying collective action as being the province of some single entity that acts on the myriad entities that comprise a market economy. The image of government in Tanzi is like that of a leader goose who directs the flock. According to this image, the flock has been directed pretty well until recent years, and now the flock is experiencing turbulence as the leader shifts from the past course of quantitative expansion to a new course of qualitative change through the replacement of private ordering by public ordering. Most public choice theory likewise reflects this centralized mindset in its reduction of political outcomes to the choice of some median voter.

In this respect, it is noteworthy that Knut Wicksell (1958 [1896]), one of the most significant of the precursors of public choice, lamented that “with some very few exceptions, the whole theory [of public finance] still rests on the now outdated political philosophy of absolutism (p. 82).” This lament opened a section in Wicksell's essay titled “The inadequacies of the traditional methods of the science of public finance under modern political conditions.” While more than a century has passed since Wicksell issued his lament, any perusal of contemporary scholarship would show the continued predominance of the centralized mindset, as Wagner (2012a) explains. What are perceived as collective outcomes are typically presented as products of some ruler's choices,



and with absolutist and democratic regimes differing only in the path through which someone becomes the chooser.

In some cases, the centralized mindset can represent little more than linguistic convenience. It often simplifies presentation to speak of political outcomes as direct products of choice than to speak of them as indirect results of interaction among rule-governed participants. Economists mostly do not confuse themselves when they use language that asserts that “markets work” or “markets fail.” They usually recognize that such language is but a quick way of describing complex patterns of interaction that could never truly reflect some person’s choice (Read 1958). Yet, once the step is taken of treating market patterns as denoting states of equilibrium, the theoretical framework readily allows reduction of complex process of interaction to simple acts of choice, as when references are made to some “policy maker” who acts to change market outcomes.

From this reductionist point of analytical departure, the introduction of an interventionist “policy maker” is nearly unavoidable. Where classical economic theory grounded in notions of spontaneous ordering and emergent phenomena assimilate the entities within the economic order to something resembling the rush of pedestrians through a piazza, equilibrium theory reduces those pedestrians to the members of a parade (Wagner 2010). Within this version of the centralized mindset, the position of state is the same as that of a parade marshal who through acts of “policy” can upon command change the direction and the speed of march.

In disputing the coherence of equilibrium theory for characterizing the societal interactions through which historical processes are constituted, I am not taking recourse to some kind of essentialist posture. To the contrary, I accept the proposition that theories are judged more by their helpfulness in advancing thought than by their fidelity to what is thought to be the reality to which the theory is thought to pertain. Indeed, we never observe that reality, any more than could the prisoners in Plato's allegory of the cave. A helpful theory, however, must reflect what is thought to be the nature of the object being examined, which in turn extends beyond notions of goodness of fit. In this respect, consider a mental experiment in the spirit of Schelling (1978) and Resnick (1994). An open field is demarked as a grid on which stand 100 people, each occupying one square. These people constitute a society and not a set of solipsistic individuals, so their actions maintain some proximity with one another. In particular, assume that no person moves closer than two squares to a neighbor, reflecting perhaps some recognition of individuality and property rights. Further assume that no person allows the nearest neighbor to get more than four squares away, reflecting perhaps recognition of a desire to be in society rather than apart from it.

In any period, five of the people initiate entrepreneurial projects which are treated as one-square moves on the grid. Given these entrepreneurial moves, the remainder of the society shifts their positions to maintain the rule of proximity. This process of entrepreneurial action and societal reaction continues in each subsequent period, in each case with five new entrepreneurial projects

undertaken and with the other members of society adjusting their positions to maintain the rule of proximity. Two things are notable about this mental experiment. First, standard tests of significance will not reject at the conventional five percent level the comparative static proposition that the society is reasonably denoted as stationary. Goodness of fit passes epistemological muster (Ziliak and McCloskey 2008), and yet it fails to encapsulate the process that is generating the sequence of observations of what are described as equilibrium states. What is really happening is a process of continual societal motion in response to continual injections of entrepreneurial creativity within the society, in contrast to the conventional presumption that those injections come as exogenous shocks from outside an equilibrated system (Kirzner 1973, 1985).

Even economists who treat observations as pertaining to states of equilibrium typically recognize that “market” denotes an order constituted through interaction among independent entities. The relationship among those entities might be characterized as being in equilibrium and, hence, conforming to the requirements of Pareto efficiency. In contrast, “state” or polity is typically characterized as a unitary actor that inserts power into market processes. This characterization is essential for rationalizing the Progressivist program of social control that has been alive for about a century and which was central to the founding of the American Economic Association. The ideology of Progressivism, after all, speaks of replacing the undirected chaos of the market with expert direction by a Progressivist-inspired chooser.

In contrast, the American republic was founded on a vision of a fractionated and distributed polity where there was no single position of power that could direct society as envisioned subsequently by proponents of the Progressivist program, as Vincent Ostrom (1987, 1997) explains with particular cogency. To be sure, markets and polities denote distinct and not identical processes; the use of power represents a form of Faustian bargain (Ostrom 1984, 1996). Political processes have similar features to market processes in that both sets of processes reflect the operation of local and distributed knowledge along with the making of deals in support of enterprise activity, and most certainly are not reducible to a situation consonant with the centralized mindset. Yet market transactions are agreeable to all participants within the framework of private property, whereas political transactions entail a great deal of duress and coercion along with agreement among subsets of participants.

The operation of these distinct but related processes creates regions of tectonic interaction that contrasts with the placidity of equilibrium. Once the fictional character of presumptions about full knowledge is recognized, it is easy to see how the insertion of power destroys knowledge due to changes in the process through which knowledge is generated. While conventional theory assumes that knowledge somehow is given prior to economizing activity, Buchanan (1982) notes in contrast that relevant knowledge is generated through transactions. One corollary of Buchanan's recognition is that transactional processes can differ in the quality and volume of knowledge they generate. While most theoretical presentations seem to treat market relationships as spot

transactions that are extinguished at the moment of transaction, in large degree those relationships are actually relational as befits the fixed-cost character that necessarily accompanies the establishment of any relationship. This relational character leads in turn to a strong presumption that the knowledge generated through market interaction will be genuine because both parties are in the position where they must continually attract business in open competition with other potential transactional partners. Deception in a particular exchange can dissolve what could have been a mutually profitable relationship. Where market entities have no option but to attract relationships, political entities can compel them. This situation surely leads to a reduction in the quality of knowledge that transactions generate from both sides of the transaction. On the one side, the political entity does not need to exercise the same discernment of the desires of the other party. On the other side, the market entity knows that information revealed to the other party can be used not to increase the value of the relationship but to impose further requirements in the unceasing search for political profit.

As a general principle, the participation of political entities in economic relationships surely degrades rather than improves the quality of knowledge that is generated through transactions. This proposition does, of course, stand in stark contrast to the myriad claims about how political power can be used to overcome problems ascribed to asymmetric information. That orthodox line of analysis, however, operates from the fictive presumption that knowledge exists independently of transactional processes. There is nothing surprising about this

orthodox presumption despite its incoherence because modern theory has formed a type of scholarly flying buttress to the Progressivist political program, even if it was not intentionally constructed with this end in mind (Wagner 2012b). It's not that every use of equilibrium theory must support the Progressivist program, for it is possible to attribute Pareto efficiency to the outcomes of private ordering. But the progressivist program needs two presumptions that modern theory embraces: (1) polity represents a coherent insertion of power into society and (2) the object on which power acts ("the market") is sufficiently simple to render reasonable the claim that power is being deployed to shift the market in a good direction. Tanzi reflects this presumption about collective activity. But what might comprise an alternative orientation toward collective activity if these presumptions are rejected?

### **3. Accounting for Political Expansion: Interaction vs. Choice**

How might the relative growth of government be explained within a reasonable economic framework? Conventional efforts to do this, which Tanzi carries forward, seek to relate macro variables directly to one another. For example, growth in the relative size of government might be related to changes in population density and income distribution, accompanied by words of explanation to make such relationships appear plausible. Such efforts at explanation, however, do not reflect any reasonable economic framework for the simple reason that macro variables do not act directly upon one another. While efforts to articulate such relationships support the Progressivist program of continual

expansion in the reach of political activity, such efforts are incoherent conceptually because macro variables are not carriers of action. Only people can act, and macro statistics are just particular summarizations of past action. For instance, there is no way that a variable called population density can act directly on a variable called size of government.

The two aggregate variables may well be correlated, but those variables themselves are inert reflections of earlier actions undertaken by participants in market and political processes (Wagner 2012a). The inert character of constructed macro variables was expressed cogently by James Coleman (1990: 28) when he wrote that “the only *action* takes place at the level of individual actors, and the ‘system level’ exists solely as emergent properties characterizing the system of action as a whole. It is only in this sense that there is behavior of the system as a whole (Coleman’s italics).” Data might well portray aggregate growth in government spending, in population density, and in any number of other aggregate variables. To link those variables in something resembling an explanatory framework is to embrace the centralized mindset.

But how might that mindset be avoided while maintaining analytical coherence? A reasonable economic explanation for the growth of government must be grounded on the presumption that aggregate government budgets grow because that is where politically-relevant investors can obtain relatively high profit. As a necessary condition for a sensible model of societal equilibrium, the net return from another unit of government activity must equal the net return from another unit of market activity. And if regulation were to replace growth in

spending, it would likewise be because this is where the lure of profit led. To be sure, this statement in terms of equilibrium conditions bears no correspondence to claims that Pareto efficiency characterizes democratic politics. Claims about Pareto efficiency pertain to relationships generated among the entities that participate within some common institutional framework. With respect to the theory of markets, Pareto efficiency means that within the framework of private property there are no unexploited gains from trade. The situation changes when enterprises operate under collective property because politically successful enterprises can compel support through tax extraction, in contrast to market enterprises whose only option is to attract support.

It might be objected that this equilibrium-based claim about equal net returns at the margin is incoherent because governments are non-profit entities. To raise this objection, however, is to confuse appearance with reality. The customary distinction between profit-seeking and non-profit entities is merely a feature of conventional legal and accounting practice. In this respect, it is widely recognized that the presence of rent control does not mean that real rents are lowered. Rather it means only that a different transactional pattern arises in the presence of rent control than what would otherwise have existed (Cheung 1975). If political enterprises did not offer gains to sponsors in excess of the gains they could anticipate receiving in other lines of activity, those enterprises would not have been created. But political enterprises differ from market enterprises because political enterprises have forced investors who increase the returns to supporters of political enterprises. What is relevant for the growth of political



enterprises is the ability of ruling subsets of the population to reap net returns as they appraise those returns, and which has nothing to do with any kind of aggregate magnitude; what matters is not that a particular collective program requires an appropriation of \$100 billion, for what matters instead is the cost-and-gain calculus of enterprise sponsors who gain from that appropriation (Buchanan 1969).

A reasonable approach to economic explanation would recognize that the concept denoted by state or government is not some single entity but rather represents a process of interaction among myriad entities that are established through political processes. Politicians are business people, just as are the operators of such other non-profit entities as think tanks. Nonprofit entities operate within different environments than do profit-seeking entities, which means that formal economic principles play out substantively in different ways (Auteri and Wagner 2007). In all instances, however, the actors in all such entities are engaged in the pursuit of gain suitable to those environments (Gigerenzer 2008). In profit-seeking environments, gain generates cash that can be removed directly from the organization. In contrast, that gain must be removed in indirect fashion as a species of money laundering, as when a political enterprise funnels through contracts with commercial entities what otherwise could have accrued as profit to the political entity. The challenge for an effective political ideology is to clothe this transaction in a garment fashioned through claims of public interest that resonate sufficiently strongly with sentiments congruent with the non-logical character of much political action (Pareto 1935). In

other words, political activity is located within the complex institutional arrangements of modern societies just as is the set of activities that we conventionally denote as commercial activity. Political activity is a species of commercial activity, and so is susceptible to the same form of explanation, allowing for difference in substance due to differences in environment, as Wagner and Yazigi (2013) explain.

#### **4. Democratic Political Economy: Its Parasitical and Tectonic Qualities**

While Tanzi devotes parts of two of his chapters (Chapters 7 and 8) to scholarly territory that was central to the classical Italian orientation toward public finance that arose late in the 19<sup>th</sup> century and flourished into the 1930s, true to his dissociation of theory from history he does not bring those theoretical insights to bear on the historical material. One of the major figures in the Italian tradition was Maffeo Pantaleoni, who formulated a framework where a system of political pricing operated parasitically on a system of market pricing (Pantaleoni 1911). Such parasitical pricing, moreover, can readily generate tectonic clashes in the regions where the two pricing systems collide, thereby supporting Robert Young's (1991) treatment of tectonic politics.

The logic of parasitical political pricing is easy to understand and at the same time is fraught with significant implications. Political enterprises cannot operate on their own because the inalienability of collective property does not allow the establishment of the prices that are necessary for consistent economic calculation (Boettke 1998). Political enterprises cannot generate revenue on their

own, and so must attach themselves parasitically to market enterprises. Yet political enterprises must engage in action, which means they must choose among options based on some approach to valuation. Market pricing provides a means of aiding valuation. Political entities need market entities because political entities generate the revenue necessary to pursue their activities. A political system isolated from a market economy will be unable to operate. Political operation requires adherence to a market economy as a type of parasitical attachment, only not full adherence because the parasitical process operates through changing the pattern of market prices. Politics cannot create market prices, but it can change them. What, after all, is public policy if it is not associated with a change in market prices? Whatever ideological cant might accompany calls for reform, those calls will amount to nothing if the associated policies don't modify patterns of market prices.

Within the Italian tradition taxes were forms of political pricing, as Antonio de Viti de Marco (1888, 1936) explained and which Eusepi and Wagner (2013) elaborate. But taxes are parasitical attachments on market prices, so political pricing could not operate in the absence of market pricing. Political-market interaction thus falls within the general framework of parasite-host interaction, as Jane Jacobs (1992) recognized astutely in her treatment of interaction between commercial and guardian entities, including her treatment of how that interaction can generate what she described as “monstrous hybrids” (1992: 93-111). Parasitical pricing generates societal tectonics and certainly not the societal placidity envisioned by customary articulations associated with the theory of

public goods. One form of such tectonics plays out in the relationship between the fiscal commons and the market economy (Raudla 2010)(Wagner 2007, 2012c). It also plays out in the relation between private and public ordering. Tanzi claims that the fiscal commons will expand no further and might even contract a bit. This is a reasonable claim based on the predator-prey character of the relationship between market and political enterprises, for predators require the continued existence of prey. This relationship could be illustrated through a simple set of differential equations, but doing this would likewise illustrate the centralized mindset because it presents the aggregate level as a locus of action when it is really just a summary of action.

The realm of action takes place on the ground, so to speak, where genuine interaction among predators and prey take place. As a matter of aggregate accounting, we know that the relative growth of government must end and so must the continued expansion in public debt. That ending, however, is likely to be accompanied by a good deal of wailing and gnashing of teeth. American unfunded liabilities are widely estimated to be in the vicinity of \$100 trillion. This figure is also an aggregate representation of something. But what is that something? Surely it represents a systemic form of lying that is an understandable if regrettable feature of democratic politics. Unfunded liabilities point to discrepancy between political promises made to people in their capacities as taxpayers and promises made to people in their capacities as beneficiaries. To be sure, there is some overlapping between the members of these categories, but there is also a good deal of separation. In any case,

collective action is a major source of the creation of expectations that cannot be satisfied. Promises and commitments necessarily will be broken as an understandable operating feature of democratic processes. Rather than state action being a means of calming kaleidic turbulence, it is unavoidably a source of such turbulence (Wagner 2012d).

But what of Tanzi's projection that fiscal expansion will give way to an expansion in public ordering, which Tanzi describes as shift of emphasis from "government replacing the market" to one of government "correcting the market (p. 26)." Contrary to this additive formulation, regulation is not orthogonal to budgeting because one can always pretty much be reduced to the other. For instance, governments could abolish school budgets by requiring parents to send their children to approved schools. Rather than expanded public ordering serving to offset the problematic features Tanzi associates with high budgets, public ordering is surely likely to intensify those features.

When Tanzi thinks in terms of a shrinking world, he thinks in terms of an expansion in regulation through international agencies. Despite the failings of state activity that he mentions throughout the book, he calls for still more state activity. For someone who embraces the Progressivist vision of omnipresent government, as perhaps any long-time resident of governmental agencies must, there is perhaps no alternative. But once one sets aside the Progressivist blinders, many options appear. Where Tanzi calls for expanded collective regulation, there are strong grounds for recognizing that self-regulation is the only reasonable approach to regulation (Boettke 2010)(Streit 1992). Where Tanzi

calls for an expansion in public ordering through international agencies, there is strong evidence in support of the ability of bottom-up processes to generate effective law on an international scale (Benson 1990). Where Tanzi calls for international arrangement for monetary control, the weight of reason and evidence supports the superiority of free banking and related institutions (Selgin 1996)(White 1999, 2012).

## **5. Concluding Remarks**

This is a thoughtful book written by a sympathetic critic of the institutional milieu in which he has operated pretty much throughout his career. Tanzi's analytical point of departure is Progressivist orthodoxy, as revised by experience (or perhaps mugged by reality) that has led him to downgrade, though only modestly, the beneficent qualities of the use of political power. He speaks of market imperfection while simultaneously expressing a good deal of skepticism toward government, all the while calling for even more expansive public ordering of human activity.

This book reminds me of the final paragraph of Keynes's (1936: viii) Preface, where he spoke of his "long struggle to escape . . . from habitual modes of thought and expression." Tanzi likewise reflects some struggle to escape from some habitual modes of thought and expression that are reflected in orthodox theorizing about public goods and political economy. Just as Keynes's effort came up short, so does Tanzi's. Despite the good deal of wisdom and sensibility displayed in these pages, Tanzi still ends up with a state-centric antidote to the

state-centric disabilities and cancers that have spread among the nations that comprise his data set. Still, there is good raw material in this book, though to put that material to productive use would require someone who would look through a different analytical window while reading the book.

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