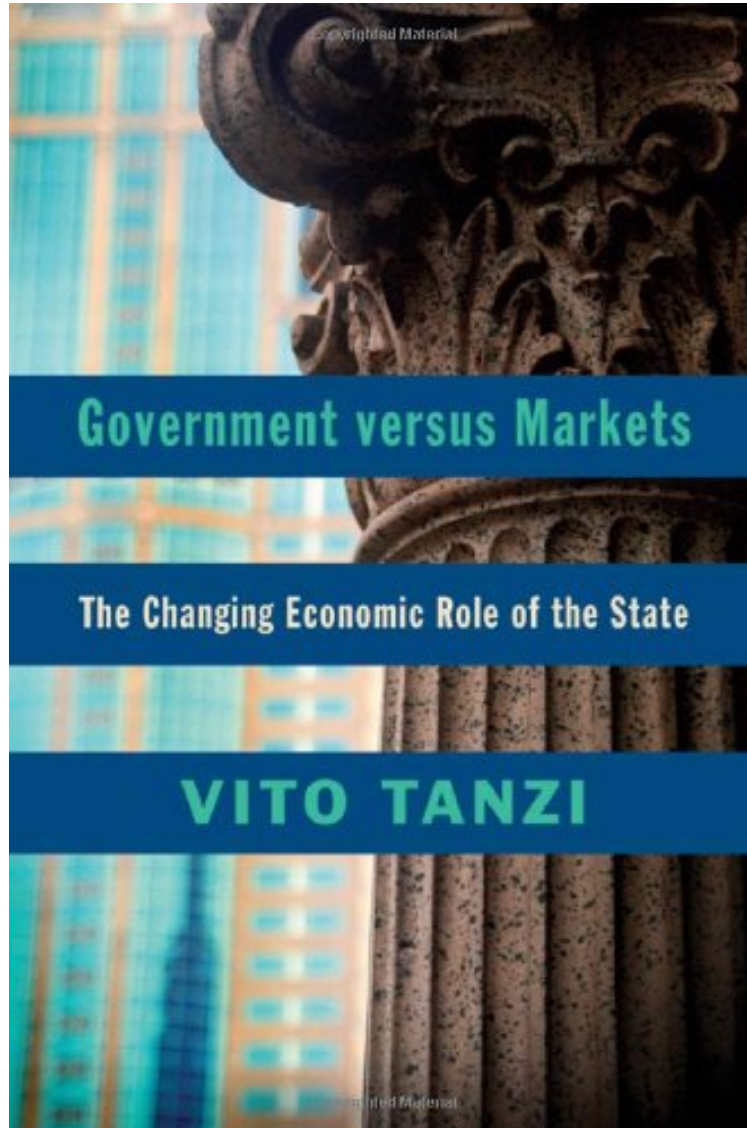


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# Government versus Markets: The Changing Economic Role of the State

Vito Tanzi

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**Vito Tanzi : Government versus Markets: The Changing Economic Role of the State** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Government versus Markets: The Changing Economic Role of the State:

8 of 8 people found the following review helpful. A discussion of the dynamic role of the state both in history and in theory By A. Menon Given the backdrop of structural change that seems required in the global economy this book is well timed in presenting a discussion of the role of the state, both from a historical perspective as well as a theoretical

perspective. The author having previously worked in the Italian government as well as being an academic is very well suited to discuss both practical and theoretical aspects of political economy. The book starts with a brief introduction and then is split into 4 main sections including a historical review of the state, theoretical issues, practical analysis and ends with a perspective on the future. The author begins with an analysis of the history of the state. He includes an analysis of economic theorists in particular Adam Smith and his views on common misconceptions. The author analyzes the pattern of government spending and its evolution. In particular how the growth of the state coincided with the growth of the need for state services and resource management (for example world war I). He discusses the catalysts of economic change that created a need for a modern state that was distinctly different from the historical one touching upon the industrial revolution and the great depression. The author also discusses the changes in spending patterns of the state and the growth of the request for social safety that coincided with the democratization of the government. The author then discusses the theory of political economy. This discusses what the potential roles for government are. It briefly discusses monopolistic states (where the state is used as a vehicle for self promotion of those empowered), individualistic states (where the state exists to serve as a voice for the individual), paternalistic states in the vein of Plato's republic, and communal states where the community is more than the sum of its parts (where protecting culture becomes a goal for example). The author continues on to discuss the social contract and its role in how government operates. He discusses Northern Europe idea generated in the 50s about determining economic efficiency via social welfare functions and output sensitivities to input costs. The author finishes the section discussing the tools at a governments disposal, in particular spending and taxing power and regulatory power. Getting into the actual outcomes of state intervention, the author continues using the Northern European methodology to examine policy effectiveness. It is found to have diminishing returns. Social protection is analyzed and again Northern Europe is analyzed in case study, in particular, Sweden. One gets strong evidence of the disincentives to productivity growth based on high levels of taxation and the diminishing returns to social spending. At the same time, the sensitivities of both of these are a function of cultural homogeneity and perceptions of free rider problems. The author ends the book with his perspectives on the future and how the role of government should change to the changing world we live in. The author is a skeptic of a large paternalistic state and believes that the governments roles are to regulate markets and let private competition be the source of growth rather than governments fill the role of markets with failures. Given the externalities of many markets the author does not believe prices act as signals in many modern day industries and information asymmetries need to be fixed by the state. Government versus Markets is a good overview of a subject which will no doubt be a major topic of discussion in the coming decades. On the one hand, the welfare state seems to have become unsustainable and requires deep structural change to provide the populations that reside within them the opportunities that they deserve but at the same time small government reduces the voice of the community in an increasingly globalized world. The book is worth reading though often the writing is unclear. I think the content is interesting but the drawbacks are it can be difficult to read and some things seem to run on. All in all, the subject is of extreme importance, the writing could be perfected.

7 of 7 people found the following review helpful. Which Viable Role for Governments in a Globalizing Economy? By Serge J. Van Steenkiste Vito Tanzi provides a balanced overview of the evolving economic role that the government has played in a democratic country with a market economy. This examination is particularly timely in the current economic environment. Mr. Tanzi focuses most of his attention on developed countries. The growth of the tax burden of major countries and the level of public spending expressed as a percentage of GDP, has been steep, especially since 1913 (pp. 9; 12; 63; 305). For example, the general government expenditures of the U.S. were equal to 36.6% of the GDP in 2007 (i.e., before the current great recession) vs. 7.5% in 1913 (p. 9). This growth was fueled by a sharp increase in the size of governments, which found its origin in factors such as particular events (wars, Great Depression), changes in the structure of the economies, the universal suffrage, and urbanization (pp. 65-68; 77; 85-89; 93-94; 229; 305). The goals of the government mentioned above cover three distinct functions: 1. Resource allocation. Think for example about the financing of large infrastructures or some essential administrative functions. No organized society can exist without this goal being satisfied to some extent, setting therefore a minimum role of the state and a minimum level of public spending. This government function has taken a back seat to the other two government functions since the second half of the 20th century. Unsurprisingly, the ongoing deterioration of the U.S. infrastructure has been happening during this period; 2. Redistribution of income. Much of the increase in public spending in the past half century finds its source in this function that progressively changed from redistributing income across income groups towards protecting (most or all) citizens against particular risks with economic consequences. This shift changed some government functions from selective to universal, making them very expensive. Think for example about health benefits for the U.S.; 3. Stabilization of the economy a.k.a. fiscal policy. Increases in spending, enacted during slowdown or recessionary periods, were not neutralized by reductions in spending during periods of recovery. Think for example about the evolution of U.S. spending since the National Bureau of Economic Research declared officially the end of the recession in June 2009 (pp. 63-64; 83; 88-89; 100-103; 116-123; 126; 136; 170; 253-254; 307; 331). Mr. Tanzi observes that these three functions are no longer country specific. They have an increasingly important global component in today's world. Think for example about the protection of the environment, regulation of global financial markets, terrorism, or international migration (pp. 129-

145; 308-311; 325-329). The author rightly calls governments to concentrate their activity on prevention rather on ex post repair or correction (pp. 184; 188; 220-221; 316). The U.S. Federal Reserve comes to mind in the run-up to the ongoing economic downturn (pp. 135; 139; 189; 216). Mr. Tanzi also shows convincingly that higher public spending, beyond a given level, does not necessarily result in higher welfare as measured by the Human Development Index (pp. 232; 234). To boost their flagging economic performance, Scandinavian countries, which are held as examples of mature welfare states, implemented structural reforms and large cuts in public spending and in tax rates in the 1990s and 2000s while keeping the lowest Gini coefficients and the lowest poverty rates (pp. 27; 235; 267; 296). To his credit, Mr. Tanzi explains clearly that the ultimate size of the welfare state depends on someone's values. Whoever gives more weight to equity and poverty reduction tends to focus on the positive outcomes of the welfare state and to minimize its costs. Whoever gives more weight to efficiency and the economic freedom of individuals, and less to equity, tends to focus more on the costs of the welfare state (pp. 11; 17-18; 206-207; 268; 305-306). There is indeed no optimal level of public spending because the needs of the population and groups able to organize politically are "infinite" (pp. 32; 306). Developed economies have access to different instruments to provide social protection to their respective populations: 1. Publicly financed programs which consist of either cash transfers such as unemployment compensation and pension, or the provision of in-kind social services such as day care and training and assistance in finding jobs, to individuals and families. These programs are financed by either general taxes or specific contributions generally based on wages of workers in the official economy; 2. Tax expenditures used in place of direct public spending to reduce the cost of (supposedly) beneficial expenditures such as education, health, and housing for individuals who pay income taxes; 3. Various regulations imposed on workers and enterprises to encourage, or oblige them to buy, or provide some protection. Think for example about the provision of loans or loan guarantees to some categories; 4. Charity that can be stimulated or subsidized through the tax system (pp. 208-216; 252-254; 257-259; 262; 308). The use of these various instruments depends on the cultural preferences of the citizens and policy makers and on the control that each government has on these policy instruments. Anglo-Saxon countries make more use of tax expenditures than public spending compared to some continental European countries, resulting in a reduced spending capacity of governments (pp. 97; 263). Therefore, Anglo-Saxon countries have to be more vigilant that social benefits go to the poorest social classes that get little or no benefits from tax expenditures (p. 263). Surprisingly, the U.S. makes much less use of income testing, resulting in social benefits seen more as entitlements than in other Anglo-Saxon countries such as Australia and Canada (pp. 260-261). Finally, Mr. Tanzi emphasizes that the growing complexity in the conduct of economic and especially fiscal policy is likely to become the most significant issue in governmental operations in the future. If not checked, it will lead to "state capture" by the people with more resources or to a popular backlash that will challenge the market economy (pp. 330-332). In summary, Mr. Tanzi helps his audience better understand the state's viable economic role. 0 of 4 people found the following review helpful. Five Stars By Informed consumer The book speaks for itself.

Vito Tanzi offers a truly comprehensive treatment of the economic role of the state in the twentieth and twenty-first centuries from a historical and world perspective. The book addresses the fundamental question of what governments should do, or have attempted to do, in economic activities in past and recent periods. It also speculates on what they are likely or may be forced to do in future years. The investigation assembles a large set of statistical information that should prove useful to policy-makers and scholars in the perennial discussion of government's optimal economic roles. It will become an essential reference work on the analytical borders between the market and the state, and on what a reasonable 'exit strategy' from the current fiscal crises should be.

"Vito Tanzi is one of the very top leading experts on fiscal policy and public policy, and this a must-read for anyone interested in how governments work in reality and how they should work in an ideal world." - Alberto Alesina, Harvard University  
"This highly accessible book is the summa of Vito Tanzi's unique experience as an academic, senior international official, and policy maker. Everyone will find this book informative and thought-provoking. As an EU policy maker and public finance practitioner, I found it highly challenging and very useful." - Marco Buti, European Commission  
"Economists have a one-sided impression of Vito Tanzi: a rigorous fiscal economist, a sophisticated analyst. Now from the book we enjoy the other side of his character: a witty man with a warm sense of humor, an open-eyed observer, and a well-articulated writer." - Jaacut;nos Kornai, Harvard University and Collegium Budapest, Hungary  
"Any scholar interested in public economics and in the study of the role of government and any policy maker concerned with public policies will learn a great deal from this excellent book." - Paola Profeta, Bocconi University Milan, Italy  
"An outstanding analysis and a modern vision by a distinguished scholar about the new role of government in the present economic situation. It shows how markets may be made to work efficiently, avoiding financial and economic crisis, while providing economic recovery and stable economic growth." - Franco Reviglio, University of Turin, Italy  
"In this book, Vito Tanzi marshals his vast reservoir of experience in fiscal matters and deep familiarity with modern economic thinking to produce a magisterial treatment of the economic role of the state - past, present, and future. It is packed with insights that will reward both the casual student of public policy and the wizened

veteran of the academic and political battles over tax and expenditure policy. Be prepared for conclusions that will startle, such as Tanzi's view that the growing complexity of state interventions may be the gravest threat to the market economy and democracy." - Joel Slemrod, University of Michigan"Mr. Tanzi is one of the world's most highly regarded economists, and for good reason." - Richard W. Rahn, The Cato Institute; The Institute for Global Economic Growth; Newsmax.com"If every member of Congress and Washington policymaker[s] would read the [book] by Mr. Tanzi...and act upon their recommendations, our fiscal and entitlement mess would soon be part of a dark past." - The Washington Times

About the AuthorAn economist of international renown, Vito Tanzi served for 20 years as Director of the Fiscal Affairs Department of the International Monetary Fund in Washington, DC with which he was affiliated for nearly three decades. He also taught at George Washington and American Universities. Dr Tanzi is the author of 14 books, including *Public Spending in the 20th Century: A Global Perspective* (Cambridge University Press, 2000, with Ludger Schuknecht) and *Inflation and the Personal Income Tax* (Cambridge University Press, 1980) and he has edited 11 other titles with contributions. A former Undersecretary for Economics and Finance of the Italian Government, he was President of the International Institute of Public Finance (IIPF) from 1990 to 1994 and is the IIPF's Honorary President. Dr Tanzi is known for the Tanzi effect, or Olivera-Tanzi effect, which refers to the diminished real value of tax revenues in periods of high inflation due to collection lags. He has served as a consultant to the World Bank, the United Nations, the European Commission, the European Central Bank, the Organization of American States, the Inter-American Development Bank and the Stanford Research Institute. Dr Tanzi received his doctorate in economics from Harvard University in 1967. He holds five honorary degrees.