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Book Review

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

**Vito Tanzi: Cambridge University Press 2011**

Have governments in industrialized countries gotten too complicated? Such is the argument raised by Dr. Vito Tanzi as he presents information and analysis that raises important policy issues, such as the overall efficiency of the totality of programs that redistribute resources from some citizens to others.

### About the Author

Vito Tanzi has 20 years of experience as the director of the IMF's Fiscal Affairs Department and additional experience as a professor, consultant to international organizations, and the undersecretary for economics and finance of the Italian government.

The author highlights the large difference between the extent of government activities and the amount of government spending in industrialized countries. The box below presents a few illustrative key facts from the book. They show that subsidies and transfers are much higher than the extent of redistribution.

### Some Key Facts from the Book

Governments in industrialized countries transfer money from some individuals to others, often intermediated by organizations, as much as they provide or directly pay for goods and services. This excludes the redistributive impact of tax expenditures, which Dr. Tanzi notes are being used to promote an increasing number of social objectives.

Total subsidies and transfers in 1990 (excluding tax expenditures) in industrialized countries were about the same as the **total** incomes of the poorest **40%** of their citizens.

In 2008, Canadian governments spent about \$2 for every dollar they contributed directly to GDP. The other dollar consisted of subsidies and transfers. All government subsidies and transfers constitute about a fifth of Canadian GDP, and about 40% and 20% of government transfers go, respectively, to the poorest and richest 30% of Canadians.

Dr. Tanzi provides an account of the many fallacies that can be deployed to make obscure the inevitable long-term equality between government revenues and expenditures (ignoring interest payments and defaults). He argues that these fallacies have contributed to the considerable growth of governments. The author quotes George Bernard Shaw — “a government that takes from Peter to give to Paul can always count on the support of the latter” — and describes many ways that “Peter” can be distracted.

The book provides several illustrations of how laws have gotten complicated, which Dr. Tanzi notes increases compliance costs, and, he argues, makes fiscal illusions (i.e., distracting Peter) easier. For example, the 2300 page US financial reform law signed in 2010 initiated the generation of thousands of additional pages of regulations.

The likely implication of the large difference between the extent of government activity and the size of government spending in industrialized countries is considerable overlap and duplication across programs that directly and indirectly reallocate resources from Peters to Paul’s. More resources are likely moving around than are being re-allocated based on need.

Given the various costs associated with raising and spending tax revenue, everyone might gain if subsidies and transfers, including through the tax system, were systematically reviewed and reformed in particular domains, such as, to provide two examples, retirement savings and the management of unemployment risks.

Dr. Tanzi offers a glimpse at a more understandable, less busy, and more efficient, although no less generous government. Something worth looking into.