

Public finance and welfare: From the ignorance of the veil to the veil of ignorance

Giuseppe Eusepi*

*Università degli Studi di Roma “La Sapienza”, Facoltà di Economia, Dipartimento di Economia,
Pubblica, Via del Castro Laurenziano 9, 00161 Roma, Italy*

Received 1 October 2004; accepted 2 June 2005

Available online 24 January 2006

Abstract

Present-day welfare states may survive as long as bureaucracies and governments can create “optimistic” illusions among taxpayers–voters. This setting is destined to fail and indirectly to open up the pathway for a constitutional welfare state. Mazzola and Wicksell first offered a constitutional view on both public choice and public goods, but the intellectual godfathers of the genuine alternative to the present welfare state are Buchanan and Tullock in the early sixties and Rawls a decade later. The virtuous circuit obligations–entitlements–rights, which the institutions of present welfare states helped to make crumble, may be restored behind the veil of ignorance.

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JEL classification: H30

Keywords: Welfare; Fiscal illusion; Constitution

It would seem to be a blatant injustice if someone should be forced to contribute toward the cost of some activity which does not further his interests or may even be diametrically opposed to them.

Knut Wicksell, A new principle of just taxation, English translation in R.A. Musgrave, A.T. Peacock (1958).

* Tel.: +39 06 49766955; fax: +39 06 4461964.

E-mail address: Giuseppe.Eusepi@uniroma1.it.

1. Introduction

Seeking the “roots” of the welfare state to see whether this “tree” has overgrown (as I believe) or has simply grown in a disorganic way (as Musgrave, 1966 believes) is of cardinal importance in any consideration of public economics. The first thing to be stressed is that an enormous number of branches have intertwined over the roots and trunk of welfare economics so that they could hardly be separated unless a time perspective is introduced. This paper tries to shed light on the alternatives to the present-day or unconstitutional welfare states.

The focal point of Section 1 is a review of the historical developments of public finance theory that have led to the post-war II welfare state. Specifically, it outlines the debate among the various continental schools (German, Italian and Swedish), and their opposition to the Anglo-Saxon tradition. The historical perspective allows me to move from the simple to the complex and to separate theories from ideologies more easily. Since value judgements are inherent in this kind of analysis, I examine the welfare state of the “real” world from the perspective of methodological individualism in light of the Wicksell–Buchanan constitutional logic.¹

Section 2, which is the innovative part of the paper, extends Puviani’s theory of fiscal illusion, which was intended to explain government behaviour in a non-democratic polity, to a democratic context such as that of the welfare state. This is done in two ways: (1) by showing the active role that bureaucracies of the present welfare states play in creating illusions and (2) by showing that a centralised tax-system allows local governments and bureaucracies to exploit voters’ illusion through a mechanism that entitles them to spend without being accountable for the future revenues that are needed to exploit voters’ illusion. The constitutionalisation of the welfare state is suggested in Sections 3 and 4 as the only alternative to the failures of the real welfare states. It would be unwise here to deal with the passage from welfare state to the constitutional welfare state because such an analysis would involve a general theory of constitutional revision indicating the path to reforms. The aim here is simply to suggest how to supplement customary democratic constitutions of the welfare state with a fiscal constitution. On this basis, Section 4 explores the obligations that have to be incurred to cover the entitlements–rights circle and then analyses the role that transfers may play at a constitutional level by distinguishing between a weak and a robust version of Rawls’s difference principle. The paper ends with a critical discussion of some possible ambiguities coming from a robust version of the difference principle. Some concluding remarks are offered in Section 5.

2. Classical schools on the welfare state: an overview

The welfarist component appeared explicitly for the first time in Wagner (1958). Believing that taxation has two distinct though complementary objectives, he thought, following the traditional Anglo-Saxon scheme, that taxation is on the one hand a covering instrument of service costs; and on the other, it is the instrument through which government modifies distribution with the aim of increasing social welfare.²

¹ See Wicksell (1958), Buchanan and Tullock (1962), Jonung (1996), and Wagner (1988).

² The statement in the text on the distinctiveness-complementarity argument can be clarified by recalling that Wagner used two distinct instruments to fulfill the two objectives (proportional taxation to cover expenditures, progressive taxation to increase social welfare). As long as the expenditure side is supposed to be neutral, progressive taxation appears to be the only redistributive tool.

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