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**THE POSITIVE THEORY OF BENEFIT TAXATION
IN THE ITALIAN SCHOOL OF PUBLIC FINANCE**

Paolo Liberati - Massimo Paradiso

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Dipartimento di Economia
Università degli Studi Roma Tre
Via Silvio D'Amico, 77 - 00145 Roma
Tel. 0039-06-57335655 fax 0039-06-57335771
E-mail: dip_eco@uniroma3.it
<http://dipeco.uniroma3.it>



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**The positive theory of benefit taxation
in the Italian school of public finance (§)**

Paolo Liberati (*)

Massimo Paradiso (**)

Abstract

This paper addresses the historical evolution of benefit-based taxation, with particular reference to the contribution of the Italian school of public finance. In particular, it is shown that the positive interpretation of the benefit theory as a criterion of rationality and judgment is well established in the Italian tradition of public finance. Indeed, the practice of taxation as interpreted by Italian scholars reflects more the outcome of a political bargaining, rather than the consistent application of any normative principle as in the contribution by Lindahl (1919). Under this perspective, the benefit theory may help the functioning of a system of democratic finance, in order to avoid large deviations of the level of taxation from its natural path. Thus, the concept remains of a fundamental role played by the benefit principle in its positive guise as a base for judgments and control of the action of governments.

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* Università Roma Tre, Dipartimento di Economia. Email: paolo.liberati@uniroma3.it

** Università di Bari, Dipartimento di Scienze Economiche e Metodi Matematici.

Introduction

This paper addresses the historical evolution of the principle of benefit-based taxation, with particular reference to the contribution of the Italian school of public finance. Italian scholars, even though partially receiving the normative implications for benefit-based taxation of both the marginalism and the utility theory, did not disregard the fundamental role of the political choice and of the budget process in governing the exchange between public services and taxation. In particular, with various arguments, de Viti de Marco, Einaudi, Mazzola, based their views of the financial exchange on a criterion of rationality and control over the budget process, that may in turn be developed through a process of democratic finance. In our view, it is this positive formulation of benefit theory that uniquely characterizes the Italian tradition of public finance, as opposed to the Anglo-Saxon tradition rooted in the definition of normative principles of taxation. The positive theory of benefit taxation tracks a crucial methodological and interpretative distinction, depending on whether one refers to the cost of public goods for each individual, or the willingness of each individual to pay for them. This distinction, to some extent, is what contributes to the coexistence of both the positive and the normative nature of the benefit theory over time. This coexistence was even present in the Lindahl's (1919) contribution, where the normative solution was associated to the more realistic possibility that the prices of public goods would depend on the balance of political powers. With respect to this peculiar character of the Italian school of public finance, the benefit-based taxation is here interpreted not as an allocation rule following a marginalistic process, but as a principle to more easily implement the judgments and control of the action of governments.

1. The origins of the positive nature of the benefit theory of taxation

The origins of the benefit theory of taxation can be traced back to the doctrine of natural law of the 17th and 18th centuries and to the physiocrats. All these doctrines identified the founding principle of the levying of taxes in the protection guaranteed by the state. In this

exchange, the foundation was rooted in the political contract, though the amount of tax remained concentrated in the discretion and power, albeit purely benevolent, of the sovereign.

This classic view of the benefit theory is shared, with various emphases, by Hobbes (1651), Von Justi (1755), Pufendorf (1672), Grotius (1625) and Locke (1690), and it is characterised by the idea that taxation represents the price of public services. Yet, it does not follow that the benefit principle should be interpreted as a rule for resource allocation, an issue that will be more evident in a later stage after the developments of the utility theory.

Rather, as Musgrave also emphasised (1959, 63; 1985, 17), the benefit principle played a dual role. On the one hand, it works as a principle of commutative justice, inasmuch as it is innate to the contract and based on a *quid pro quo* relationship (and thus a natural complement to the contractual theory of the State); on the other hand, it works as a principle of tax equity, under which the citizen pays a tax equivalent to the benefit received from the activity of the State, except in those cases where it may be necessary to mitigate the distribution of the tax burden with the principle of ability to pay.

This concept appears to have been fully grasped by Smith, but by previous authors as well, from Petty to the early utilitarianism of Verri (1771), where the role of taxation could be interpreted from both a benefit and an ability to pay perspective. This mixture is evident, for example, in Petty (1667; 68), who says that “it is generally allowed by all that all men should contribute to the public charge but according to the share and interest they have in the public place; that is according to their estates and riches”. Verri – whose five maxims on taxation have important similarities with Smith’s four, and preceded them by a few years – declares that justice in taxation lies in the advantage that the private property receives from the protective function of the state, and that the total amount of public spending should be limited to the “public utility” of state functions.

The link between the property and the protection of the state leads then to the idea that taxes must be made proportional to wealth, but that the poorest classes should be exempt, which in fact corresponds to a system of mild progressivity, expressed by the concept of clear income, i.e. income above a certain level of subsistence. Verri’s reference to “public

utility” was the result of a conception that public spending should contribute to the greatest happiness of the collective, a utilitarian concept that would later be confirmed by Bentham’s positions on taxation.

A position similar to Verri’s, but outside the utilitarian view, can be found in von Justi, whose justification of proportionality of taxation was based on the consideration that the receiver of the benefits of state protection is “property”, rather than individuals. Thus, property being the most advantaged by state protection – and given that the relationship between property and benefit of protection grows in absolute value – proportionality of taxation would follow.

A different position was taken by Adam Smith, who mixed benefit and ability to pay principles of taxation. Smith’s famous first maxim of taxation is emblematic: “The subject of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. [...] In the observation or neglect of this maxim consists, what is called the equality or inequality of taxation” (Smith, 1776). The principle of benefit and ability to pay are thus both present. However, if the principle of equality lay in proportionality, its application, as Smith himself would have held, could require calling for taxes only above the subsistence levels, a concept considered as an element of the ability to pay. Despite the juxtaposition of the two principles, this did not imply that the link between the benefits of the public activity and the taxes paid at individual level could be ignored. The distinction between the benefit principle and the ability to pay was indeed so clear, that it led, without reservation or confusion, to levying of benefit-based taxation in all those cases where individuals were direct beneficiaries of certain outlays (Smith, 1776).

Other authors adopted the same line, including Broggia (1743) – to whom we owe the first organic treatise on the matter of taxes – who indicated the opportunity to collect taxes on real estate, because it is real estate that could benefit more directly from state protection. This position is similar to those held by von Justi, regarding special privileges, or later by von Hock (1863), in the case of special payments to be applied to special services. These authors reveal the more or less explicit awareness that the applicability of the benefit

principle is immediate and desirable in the case of public goods and services that provide individual benefits; meanwhile, its application should be mediated by ability to pay, in the case of public goods with indivisible benefits.

This distinction would become clearer in the later developments of the benefit theory, as in Wicksell (1896), when he declared that, compared to the general nature of the services provided by the state, the value of services "... cannot be measured with any known means, and in many cases must rather be considered immeasurable, something which excludes *per se* both 'equality' and 'relativity' of tax contributions"; or as suggested by Seligman (1915), that the real reason for employing the benefit principle is the presence of a "particular and individually measurable advantage". Instead, the particular advantage should dissolve or become diluted, or be merely an accidental element in a system of tax justice based on the principle of ability to pay. This is in any case a distinction that, in a historical perspective, coincides with the attitude of some authors – Rousseau, Montesquieu, Condorcet and Sismondi – who, from the assessment of the benefits from state protection, reached the conclusion that the wealthy were the most advantaged, and that progressive taxation should follow. Seligman gives a careful analysis of these positions, distinguishing those contributions to the benefit theory leading to proportional taxation from those actually leading to non-proportional taxation.

Thus, as regards a state activity limited to the task of protection, the classic view is strongly affected by the presence of public goods with indivisible benefits and the consequent concern with sharing their cost among individuals, whose benefits are shared in the same way by all. Within the definition of the benefit principle, this required establishing the measure of the benefits to receivers of the state action, from which it followed both the need to discuss the appropriate structure of taxation (proportional or progressive) and the possibility to mitigate the benefit principle with taxes based on the ability to pay principle. Whatever the form of taxation, it was a question that originated from political value judgments, as Musgrave observed (1959; 65), but all illogical, as Seligman recognizes when he says that "... it is absolutely impossible to apportion to any individual his exact particular share in the benefits of the governmental activity ... Proportional taxation as a necessary outcome of the benefit theory is just as illogical as progressive taxation based on

the same theory”.

No normative foundation could thus be recognized in founding the benefit principle, though its positive character remained, which is identified in the need to align taxation with benefits, as a rule of commutative justice that implies perfect coincidence among beneficiaries and taxpayers. From this, one can deduce that the recourse to the ability to pay is itself justified by the fact that public goods are provided and beneficiaries are identified.

This position is actually distant from a pure application of the principle of ability to pay. In this latter case, as argued by Stuart Mill, it would be irrelevant to determine who is quantitatively more interested in the presence of the state, to foster a more general concept of social justice, which may survive even in the absence of public goods provision. But without any connection with the provision of public goods, the only relevant dimension of the tax burden becomes its distribution among taxpayers, and not the correspondence with the benefits of public spending. In this sense, with the principle of ability to pay, the expenditure side is immaterial.

This delink between expenditures and tax burden, however, has not necessarily characterised the application of the principle of ability to pay, which has often deviated from its pure form and reconciled with the state action, as in the case of the night-watchman state, which was best expressed by Say (1828) and later embraced by Ricardo (1817) and his follower McCulloch (1845). In particular, McCulloch adhered to a watered-down version of the benefit theory, which interpreted taxation as an insurance premium in relation to its limited function in funding state protection. From this point of view, he proceeded to the adoption of proportionality of taxation and the ideological rejection of progression, always deemed to be expropriatory (Thiers, 1848). McCulloch also considered the unfairness of progressive taxation, declaring that the abandonment of proportionality would be like being at sea “... without rudder or compass, and there is no amount of injustice or folly you may not commit”. In the same vein, Thiers would declare that any departure from proportionality would be “revolting arbitrariness”. These arguments have long marked the debate in the 1800s over progressive taxation and contributed to the mixture of benefit and ability to pay theories.

2. Positive vs. normative theory of taxation

The classic positive nature of the benefit principle as a rule for collecting taxes ends with the marginalism and the development of the utility theory. In the 1880s, the contribution of Italian scholars – Pantaleoni (1883), de Viti de Marco (1888) and Mazzola (1890) – and the work of Sax (1887) produced the extension of the principles of marginal utility to the evaluation of public goods. Individual choices between consumption of public goods and private goods followed the same rule with which individuals allocated their income among private goods. It follows that the marginal utility of public goods and private goods – for each individual – should be the same. This representation of the allocation process, following the example of Wicksell (1896), would reach its final structure within a normative analytical context with Lindhal (1919). Nonetheless, the shift from the seminal contribution of the Italian public finance to Lindhal's contribution was marked by a fundamental difference of approach, representative of the divergence of the benefit principle between positive and normative formulations within the domain of the marginal analysis.

The first contribution came from Pantaleoni (1883), who applied the criteria of Jevons and Walras to the apportionment of public expenditure. The resulting mechanism began with the idea that the supply of public goods would involve the use of funds otherwise used for private goods; thus, revenue and expenditure in the public budget should be considered simultaneously in making financial decisions. In particular, according to Pantaleoni (1883), distribution should involve a dual judgment in the process of financial decision-making: “firstly, regarding the intrinsic utility of spending, on the basis of which it is placed in the class of possible expenditures; then as regards the utility of the same, compared to the utility of other equally possible expenditures, on the basis of which it is to be preferred”.

From this view of the decision-making process, two fundamental consequences emerged. The first was the role of the political choice, which focused on the Parliament (and not on individual taxpayers) as the institutions in charge of the financial calculations, that makes choices regardless of the evaluations of each taxpayer about the distribution of public funds. The second was the indication of the budget process as the mechanism

through which the Parliament expressed its preferences on the distribution of public funds among all possible expenditures. Thus, it was not only evident the awareness of a political dimension in financial decisions, but also the exclusion of subjective considerations about the willingness to pay of each taxpayer. This obviously did not mean denying the existence of an exchange between public services and taxation, implicit in the joint consideration of expense and revenue. Rather, it drew the issue of exchange back to the evaluation of the cost of public services, which found, in the marginalistic logic, a criterion of *rationality* and *control* over the financial process that is developed through the democratic procedures followed to approve the public budget.

An opposite view was taken by Lindahl (1919), which can be considered the most complete expression of the normative nature of the benefit theory. In that context, a hypothetical auctioneer could announce a set of personalized prices, one for each individual that allow individuals to maximize their utility in the presence of the same amount of public good. The implications of this mechanism in terms of public good provision are immediate. If prices correspond to marginal benefits, and assuming that the hypothetical auctioneer is the state, Lindahl's prices would correspond to benefit-based taxation. This solution would guarantee that funding for public goods would follow the rule of the most appropriate allocation, meaning a public solution that could replicate the automatic result of the market. Pantaleoni follows this line, at least partly, as his idea is that the process of expenditure and revenue determination can be placed within the Walrasian scheme based on the final degree of utility of private and public goods (Musgrave, 1959). However, while this price-setting mechanism can easily be applied to the case of financing public goods that have measurable and identifiable benefits, the problem remains of determining the outcome of this process when non-excludability provides incentives for non-revelation of preferences.

Despite this difficulty, the process is completed at this stage. Lindahl's scheme allows an interpretation of the benefit principle that is no longer a simple rule of fair taxation, but a solution to an allocation problem that is similar to that of private markets, and thus achievable through voluntary solutions. Nonetheless, the issue of providing general public goods – and thus the impossibility of tracing voluntary solutions – cannot be avoided. In particular, the analogy with the market would be inapplicable, precisely because individuals

would not express their preferences without the impulse of a political process (Wicksell, 1896); instead, the fact that this inapplicability is sometimes suggested in terms of equity, is for Wicksell a secondary issue.

It is worth noting that the Wicksell's consideration of the political process, though not central to Lindahl's model, is not ignored by him. There follows, in Lindahl, the possibility that the determination of the prices of public goods should pass through the balance of political powers. It is perhaps this awareness that urges Lindahl to place the terms *A Positive Solution* and *Just Taxation* side by side in the title of his essay. In his reasoning, Lindahl observes that the normative solution presupposes that all individuals have the same contractual power, but he then declares that in reality this power is often unbalanced. It follows firstly that the effective provision of public goods will be the result of the greater ability of a political part to defend its own interests; secondly, that the budgeting process and the democratic control become instruments to prevent the public budget from depending upon the preponderance of powers of a given political side (see also Musgrave, 1999, on the role of budget procedure). It is of some interest that these suggestions come from the same article that constitutes the benchmark of the normative view of the benefit principle, and it is also emblematic that they have been largely ignored in that part of the literature adhering to that view.

3. The positive benefit theory: de Viti de Marco and Einaudi

The consideration of political processes is again central to the contribution of the Italian tradition of public finance, where the appeal of voluntary solutions that fail to consider the institutional aspects is very weak, even after Lindahl's contribution. The main focus is not on how to measure benefits, but on how to distribute the cost of public services, an issue that considers the state as a production factor that could thus be remunerated. In this context, the task of the Parliament, as the delegate of citizen-taxpayers, would be to provide financial calculations through the democratic procedures of public budget approval. This formulation was suggested by Pantaleoni, and was taken up again by de Viti de Marco

(1888 and 1934), that viewed the financial decision-making process in the cooperative state as the final step of the democratic evolution of political constitutions, a concept that would later be taken up by Musgrave as well.

From this view, it derives the notion of *cooperative State*, in which individual preferences are expressed about the composition of the public spending and the distribution of the corresponding taxes, and implemented through the procedures and the rules of the public budgets. This implies rejecting a normative principle of financial decision-making, and replacing it with a positive principle (even though imperfect) articulated in financial procedures and voting on financial decisions. In this accepted definition of procedural democracy, the state can be understood as a community of individuals organized in a cooperative way, to the satisfaction of a shared set of individual and collective interests. There is thus a relationship of exchange, between citizens and the state, for which citizens make payments to the state for the efficient production of public goods and services, according to the collective interests. From this point of view, it is the productivity of public services that determines their remuneration, as a criterion of rationality and control expressed by citizens about the state's economic activity.

In this analytical context, de Viti de Marco poses the prejudicial question of whether “in the production and consumption of general public goods, there exists a relationship of exchange, as exists in the production and consumption of special public goods”. In other words, the issue is whether the concept of tax-price – applicable in the case of special public services which can be divided by units – can also be valid in the case of the State as the producer of general (not divisible) public services. de Viti says it could, under certain conditions. In the first place, it must be assumed, also in the case of general public goods, that there is a perfect coincidence between beneficiaries and taxpayers, one that is not difficult to assume in de Viti's cooperative state, even though it cannot be assumed as a general rule (for example, in his monopolistic State). In the second place, as units of public good are not divisible, one must make hypotheses on how the benefits of these goods are distributed.

Thus, it becomes again necessary, at this stage, to discuss the form of taxation. As regard to this issue, de Viti assumes that consumption of general public goods is proportional to

income, inasmuch as income represents the best indicator of the ability to consume and – one may add – the item that ultimately best reflects the utility of public activity.

The first assumption (coincidence) is relevant in that it would overcome free-riding in providing public goods. The second assumption (indivisibility) is relevant because it leads to proportional taxation. Nonetheless, the tax structure that emerges by de Viti's assumption should not be deceptive. Here, proportional taxation cannot be assessed – and criticized – on the basis of its presumed insufficiency in achieving equity; it should rather be interpreted as the result of a distribution of tax burden grounded in the benefit principle. Thus, proportional taxation survives only to the extent that citizens perceive a proportional correspondence between the benefits of the general public goods and the tax burden they bear. It is worth noting that even in de Viti, the benefit principle might be interpreted as a rule for normative allocation; yet, without the practical possibility of going back to individual benefits, it can only be based on positive rules for its application, of which proportionality is only one possible case. Indeed, Seligman (1894) already pointed out that the benefit principle could lead to various forms of relationships between benefits and taxes, including a progressive one. But without measurability of individual benefits, the 'correct' form of taxation would be unknown and must be approximated.

This leads inevitably back to the *positive* character of the benefit principle, and with it to the abandonment – more or less conscious – of the possibility to provide an *ex ante* evaluation of the correspondence between benefits and tax burden, as would be provided by a subjective assessment of the utility of public goods. The inapplicability of the normative character of this rule, in the case of general public goods, emphatically reveals the need to entrust an *ex post* correspondence between taxation and spending, which can be achieved only through a mechanism of democratic assessment. As de Viti declares, “only a constitution that gives the greatest number of citizens the right and the wherewithal to participate in calculating collective value and revising it periodically can also provide the maximum guarantee against the danger of unproductive public spending”.

The question of the equivalence between taxes and general public goods and the need for democratic control, has also been addressed by another important exponent of the Italian public finance, Luigi Einaudi. In his lectures on public finance, he held that the

indivisibility of public services made it impossible to achieve equivalence between taxes paid by *individual* taxpayers and benefits they received *individually*. If the opposite were true, Einaudi maintains, the very sense of taxation would fall, in favour of the applicability of public prices or charges in most cases. Therefore, the study of distribution of taxes becomes necessary precisely because the individual benefits of the provision of public goods are not known, or cannot be known.

Nevertheless, the passage in which de Viti assumes proportionality between income and consumption of general public goods is precisely the attempt to re-establish the idea of a direct relationship between benefits and tax burden for every individual. Nonetheless, the concept of tax-price in this case is seen by de Viti as being different from the tax-price that would be applicable in the case of special public services. In the latter case, the relationship between benefits and taxes does not require justification, inasmuch as it is direct; in the case of general public services, rather, it is necessary to *assume* a distribution of benefits, to indirectly justify the concept of tax-price.

On this specific issue, Einaudi's construction is different, though equally interesting. To Einaudi's way of thinking, the criterion of pecuniary consideration (or benefit), which is already useful in the case of divisible services that permit ongoing comparison between costs and prices, can in any case be recovered in the matter of taxation as well. In our opinion, however, Einaudi's view does not coincide completely with de Viti's: Einaudi declares that "...it should be made clear that, if not between individual tax rates and individual rates of corresponding public services, there must at least be an equivalence between the total amount of taxes paid and the total mass of public services provided" (Einaudi, 1916; 152). This is the view of *aggregate equivalence* or – we could suggest – of *aggregate benefit*. This concept, according to Einaudi, is a partial criterion, "...that does not take us much further in the study..."; but it is a correspondence that is confirmed, and which corresponds to the need that members have with regard to their representatives in government "...that they should not waste taxes on ends that are not useful for the common good".

It is important, as it will be shown in the following section, that according to Einaudi the need for aggregate equivalence remains theoretically sound "... and is the goal toward

which one aims, because every violation of this equivalence is a cause for damages, which in the long run shake up those in government and force them to restore balance” (Einaudi, 1916; 153). Indeed, according to Einaudi “... methods of tax distribution must be such that the individual is not overly burdened by excessive inequality between the tax he/she pays and the impression of advantage he/she receives from organised civil coexistence in the form of the state. Through many errors and experiences, tax systems tend to approach this goal” (Einaudi, 1916; 154-155). This cannot avoid that in a short period of time, Einaudi declares, the distribution of taxes could also be subject to the whims of the lawmaker of the moment; but in the long run, reactions arise (the *grumbling of the taxpayers*, in Einaudi’s words) which force legislators to return to criteria of distribution that are agreed by taxpayers (Einaudi, 1916; 156).

The intuition is evident, in de Viti as well as in Einaudi, that public finance in the democratic state is founded on the principle of social groups and parties that are periodically in power and that once they have reached positions in government they may remain there under the continuous control of voters. This has precise implications for the financial decisions, through which an exchange between the state and the collective is established.

de Viti and Einaudi acknowledge the theoretical and technical obstacles that, in the case of indivisible public services, prevent the benefit principle from playing the same *ex ante* control function that is typical of special services. Furthermore, both hold that the very absence of this *ex ante* control requires that *ex post* controls be carried out. However, solutions to this requirement are different.

According to de Viti, since the demand for general public services is presumed from income, it could also happen that those in government would indulge for an extended time in non-economic production, or could launch policies that are class-driven and anti-economical for the collective as a whole. The need follows for verifying this behaviour, through an annual review and with exposure to “... critique and continuous public debate in the press, the parties and parliaments...” This, de Viti declares, provides the only possible guarantee of expenditure that is productive, or held to be so by those who support it.

This same need for *ex post* control, as discussed previously, is present in Einaudi as a

means for avoiding unproductive spending. However, in this case, there is no hypothesis, as in de Viti, on the distribution of individual benefits from public spending. In de Viti, proportionality of income is a method for assigning individual benefits; in Einaudi, it is the concept of aggregate benefit that represent the criterion of rationality of the tax burden and the way to judge the financial choices made by the government. This is the sense of his statement that "... given total tax revenues of 2,000 million liras ..., there must be a corresponding total of public services held by members, in the total value of 2,000 million liras" (Einaudi, 1916; 152).

In both cases, then, the concept remains of a fundamental role played by the benefit principle in its positive guise: as a principle on which to base judgment and control of the action of governments. This is more than a mere criterion of rationality in collecting taxes – as in the case of special services – as it stands as a criterion of rationality and judgment of the direction of public measures.

4. Democratic finance and natural taxation

In the positive formulation of the benefit theory, the judgment on the productivity of special public services is always realised *ex ante*; whereas, for general services, it can only be realised *ex post*. It implies that the productivity of public services becomes an essential element of this formulation, which will receive significant in-depth treatment by Ugo Mazzola. His name is associated both with the illustration of the complementary relationship between private and public goods, the latter being the result of political cooperation, and with the concept of indivisibility of the general public goods.

Equally relevant, however, is Mazzola's contribution to the analysis of the relationship between taxes and efficiency of public spending. In his 1895 essay on progressive income tax, he states that "... even one who does not consider the specific utility of public services, and views them as a complex and indissoluble whole, presumes some kind of appreciation of them. Otherwise one would make the absurd hypothesis that an amount of wealth would be used by an economic agent with no judgement whatever on the utility produced for

himself by this amount of wealth” (Mazzola, 1895; 12).

Thus, Mazzola expresses the awareness that in the case of public goods with indivisible benefits, it is still possible to establish a kind of equivalence between taxation and spending, not designed to measure its utility, rather to judge it. Nonetheless, this awareness is the result of an attempt by Mazzola to provide a scientific solution to the issue of progressivity in taxation. In particular, Mazzola establishes an ingenious connection between progressivity and complementarity between public goods (with indivisible benefits) and private goods. Even though the complementarity proposed by Mazzola does not imply progressive taxation, it would affect the structure of a “natural taxation” which would ideally represent the price of public services.

In particular, and unlike many “ideological” treatments of progressive taxation criticised by Mazzola, progressivity would not be a consequence of a decreasing marginal utility of income – as implicit in the ability-to-pay doctrine and in the sacrifice principles – but the “result and expression of the productivity and the growing utility of subsequent doses of wealth that the taxpayer pays to the state as a tax, and which are converted to the production of public services and the satisfaction of public needs” (Mazzola, 1895; 58).

Thus, progressivity would have a place, within an economic system, as long as the yield from public activity is (or is perceived to be) subject to the law of *increasing returns*. At the same time, this would also constitute a theoretical limit on progressivity, as the exhaustion of growing yields of public spending would move the structure of the “natural tax” from progressivity to the extreme of proportionality. But it is worth noting that regardless of whether progressive or proportional, the concept of natural taxation would owe its form to the efficiency content of public services, and not to distributive considerations based on a decreasing marginal utility of income. From this point of view, de Viti’s proportionality could be interpreted, according to Mazzola, as the arrival point of the natural taxation, the moment when public spending has exhausted its *increasing returns*, and the complementarity of public and private goods has achieved an equilibrium represented by the universal and indivisible spread of its benefits.

As de Viti, Mazzola argues that the development of progressive taxation toward its natural tendency to proportionality should be continuously legitimised by a “democratic

political government” (Mazzola, 1895; 128), i.e. by an explicit act of consensus “on the part of all the people or the majority of them, who would sanction the periodic return to the source from which power emanates” (Mazzola, 1895; 130). Once again, then, the relationship between taxation and spending is a tool for an *ex ante* rationalisation of taxes, and an *ex post* “extremely valid instrument of power and permanent control” of governments. Thus, democratic finance would allow the functioning of these control mechanisms; it follows that the possibility for establishing natural taxation depends on the effectiveness of controls, as an expression of the preferences and judgment of citizens.

Obviously, in this ideal path, it may be that the prevailing tax system does not always satisfy all members. As Einaudi puts it, taxes may tend toward a configuration, without ever reaching it; “... the ignorance of those in government of the real desires of their constituents, the urge to abuse their power, the formation of bureaucratic groups that live off the growth of public spending, the prevailing power of classes whose interests do not reflect the interests of the whole, may make it so that real taxation deviates greatly from the type of distribution that is held to be correct at a given moment by the members”. This would lead, in Einaudi’s definition, to a *typical taxation* with the same characteristics as the natural taxation described by Mazzola.

The political game among groups driven by interests divergent from those of the majority, the formation of oligarchic groups, or, in the last analysis the ever-present difficulties in democratic systems of control of power, are accompanied, in this realistic view of political processes and democratic systems, by the consideration of phenomena of fiscal illusion. Einaudi also refers to these, citing Puviani (1903), as deviations in the judgment of taxpayers that would impede the establishment of *typical* taxation. These deviations, again according to Einaudi, may last for a long time due to the difficulty of members to observe them or perceive their content and consequences. From this very possibility, it emerges the need for informed democratic control, and the need to provide instruments which allow members to identify deviations and to react.

The question of the preponderance of coercive power of the state over taxpayers would be explicitly dealt with by Pantaleoni, who adopted an explanation that pointed to the constraints typical of coercive systems, though in democratic guises, aimed at creating a

collective “hedonistic maximum”. This interpretation of Pantaleoni’s was to become relevant in the Italian financial literature of a sociological bent, and would be developed by Cosciani. Explicitly working on the various editions of the university lectures given by Pantaleoni during more than twenty years, Cosciani (1937) pointed out that the coercive nature of the financial activity precludes any possibility of convergence between the coercive demand for goods and services and the corresponding supply decided by the ruling class. It follows that financial activity will tend to approach a voluntary structure or a coercive structure, in relation to the “more or less vigorous power wielded by the ruling class over the collective, and according to the juridical conformation of the State; but also that this balance zone will tend to narrow as an effect of financial illusion caused by the ruling class and by the individual members of the collective, such that the cost of financial activity appears to be or is less than the original.

What emerges with sufficient clarity from this formulation is the awareness that spending and taxation processes are conditioned by the political game, and that in carrying out these processes the central problem of democracy manifests itself. Or, rather, the democratisation of power, which requires, in the case of public finance as well, the diffusion of power in society and the need to control financial choices.

5. Concluding remarks

This paper has addressed the relevance of the concept of benefit taxation and discussed the coexistence of both normative and positive views. In particular, it has been shown that the positive interpretation of the benefit theory as a criterion of rationality and judgment is well established in the Italian tradition of public finance. As de Viti and Einaudi have suggested, the public finance in the democratic state is founded on the principle of social groups and parties that are periodically in power and that once they have reached positions in government, they may remain there under the continuous control of voters. It follows that the practice of taxation reflects more the outcome of a political bargaining rather than the consistent application of any normative principle. Whatever the case, the benefit theory

may help the functioning of a system of democratic finance, aimed at more easily avoiding deviations of the levels of taxation from its natural path. Thus, the concept remains of a fundamental role played by the benefit principle in its positive guise, a principle on which to base judgments and control of the action of governments.

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