down to the mining boom rather than any fiscal discipline on the part of government. Repairing the budget in the good times is the part of Keynesianism that many of his followers ignore.

The book presents as good a popular account of the global financial crisis as I have read, dismissing the notion of government intervention in the US mortgage market as the genesis of the problem. Beliefs about the causes and solutions to the crisis are important in assessing whether the shift from freedom to equality that Hartcher describes will turn out to be durable or just a short-term response to plunging credit and demand. Presidential politics in the United States looks set to be dominated by these distributional issues in 2012. Here, Tony Abbott's populism taps into public concern about growing debt, yet he offers costly interventionist policies on everything from climate change to asylum seekers.

The episodic nature of the book leaves a lot of gaps in the argument. The major themes go missing for chapters on end. Hartcher points out that the political legitimacy of free markets rests on perceptions of equality of opportunity, but doesn't provide a sustained interrogation of the extent of opportunity here. He presents mining magnate Andrew 'Twiggy' Forrest as proof positive of Australia's equality of opportunity. This may be true but the reader doesn't get enough of Forrest's story to make an assessment. I was pleasantly surprised to read that Australia ranks highly in the OECD in social mobility, well ahead of the United States and the United Kingdom.

Considering how often our economy is compared to the two countries, this is an important finding. Classical liberals sometimes pay lip service to equality of opportunity, agreeing that it is essential but bristle against some of the measures that might bring it about. This feature of national life is likely to have come from a particular set of conditions rather than some arbitrary balance between freedom and equality. Countries at the top of the list, such as Canada, show that a dynamic economy combined with government guarantees of universal health and education seems to do the trick. Which brings us back to the mining boom and its discontents, as well as our track record of wasting the proceeds of the booms of the past. Perhaps we should enjoy our status as a model nation while we can.

If the argument of *The Sweet Spot* is unconvincing, it is a fun one to engage with. Hartcher provides a breezy but intelligent read. His discussion of fairness ranges from the toilet queues at the SCG to the relative happiness of Chileans and Hondurans. The lighter material is complemented by a range of studies and statistics. Best of all, the author's optimism makes a pleasant change from the poisonous mood of contemporary politics.

Reviewed by Wayne Errington

Government versus Markets: The Changing Economic Role of the State
By Vito Tanzi
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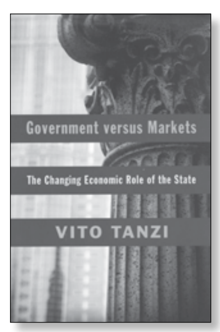

Has government grown too big? At least one famous economist believes so. According to this economist, '25 percent is probably near the maximum tolerable proportion' of government's share of the economy. Considering that many European governments now command more than twice this size of the economy, one has to assume that John Maynard Keynes, quoted above, would be flabbergasted. How ironic when Keynes and his theories are so often evoked by proponents of a bigger state.

Conversely, what kind of economist would assign to the state the roles of law enforcement, defence, protection against natural disasters, provision of standards of measure, certification of the quality of some goods or services, assurance of a minimum income for everyone, and—more generally—provision of a number of services that for various reasons cannot be provided, or cannot be provided adequately, by the market? No, this comprehensive list was not drawn up by (socialist) Karl Marx but by (classical liberal) Friedrich Hayek.

The two examples demonstrate that when it comes to determining the right scope of government activity, and the adequate size of the state, there are no easy answers. Worse, the answers keep changing over time, and may vary from country to country. Vito Tanzi's latest book, *Government versus Markets—The Changing Economic Role of the State*, explains why.

There is no person better qualified to write a comprehensive analysis of global government spending than Tanzi. Some public finance experts are economic theorists; others are advisers in international institution; still others have held high offices in government. In his long career, Tanzi has played all these roles. This enables him to reflect on the changing economic role of the state, which includes but is not identical to public spending, from various angles. *Government versus Markets* is the impressive result.

The book is systematically structured. After providing an overview of the general long-term trends and issues in public finance, Tanzi narrates the history of the economic role of the state. This first chapter combines both historical facts and figures and their interpretation, which is to be expected. However, Tanzi goes well beyond to provide readers with the most illuminating reflections on the history of economic thought and its relevance for the development of tax and spending policies.

In the long run, we are not only all dead but shaped by the ideas of 'academic scribblers,' as Keynes famously commented. Tanzi apparently agrees. With dry wit, he identifies economics as a discipline that bears some responsibility for the growth of the state:

> The economic analysis of 'market failure' led to a sharply rising demand for the services of economists in the government. Or, perhaps, it was the other way around. (p. 172)

What he is referring to is an economics discipline that for a long time devoted much, perhaps too much, attention to detecting ways in which markets fail and developing cures for the supposed diseases. Not only did this overstate the presence of 'market failure,' but it also ignored the possibility of government failure. Tanzi shows how these conflicting views of the state have formed: on the one hand, the benevolent state led by supposedly enlightened rulers; on the other, the more cynical view of the state as an organisation dominated by people who are not less self-interested than participants in the market.

Tanzi's account benefits from his insights into different cultures. As an Italian economist, he draws on the *Scienza delle finanze* and its substantial body of literature, which is sadly neglected outside Italy. But Tanzi is also familiar with German and north European literature on public finances and not just, as many scholars, with those parts of the literature originating from Anglo-Saxon countries.

Throughout *Government versus Markets*, Tanzi manages to combine these perspectives by comparing their emphases. As he makes clear, the focus of public finance differs from country to country. German economists were traditionally interested in optimally allocating resources through the state via the tax system, Anglo-Saxon literature saw public spending as inherently unproductive, while Italian academics often focused on the reasons for the inefficiencies in the public sector.

It is well worth contrasting these different research programs to understand the practical differences in the role and the size of the state across different countries. Indeed, culture plays a major role in public finance, as Tanzi emphasises in his treatment of the Nordic states. Although the Nordic model is economically quite successful despite the high-spending, Tanzi warns that it cannot be adopted by other countries that lack, for example, Scandinavia's traditions and cultural homogeneity.

Following his treatment of the history of public spending, Tanzi summarises the theoretical justifications and critiques of government and the theories on public spending that developed over time. He does so in a most convincing way, but these chapters may be of greater interest to the lay reader rather than to someone who has taken public finance classes at university.

In the final part of the book, Tanzi looks at empirical evidence of the outcomes of increased state activity. For those familiar with Tanzi's previous work, particularly his research with Ludger Schuknecht, these results will be unsurprising. Without presenting a 'world formula' or the definitive optimum size of the state (which probably does not exist anyway), he lays out evidence to suggest that on a number of different criteria, smaller governments have achieved better economic and social outcomes than larger governments regularly spending more than 40% of GDP. Tanzi is careful not to over-interpret international comparisons, but he leaves no doubt that there is considerable scope for shrinking most developed welfare states without jeopardising social or economic goals.

In his concluding thoughts on the future of government spending, Tanzi indicates that such cuts to public spending have become necessary as governments have reached a size they would struggle to maintain given demographic pressures. For this reason, he also predicts governments will try to achieve more public policy goals through actions other than public spending.

Readers do not have to agree with every single prediction or assessment in Tanzi's book, and may even miss a more clearly spelt out recipe of how to reduce government to the smaller size that the author deems sufficient to fulfil the functions of a modern state. But Tanzi's well-written, thoughtful and thought-provoking book will leave readers better informed and better able to engage in debates about the future role of the state in the economy.

Reviewed by Oliver Marc Hartwich