Экономическая политика. 2019. Т. 14. № 6. С. 102–115 DOI: 10.18288/1994-5124-2019-6-102-115

GOVERMNENT SPENDING IS NOT NECESSARILY DAMAGING TO ECONOMIC GROWTH

Interview with Vito TANZI

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Yuriy Kuznetsov. How did it happen that you became an economist and a researcher, and in particular a researcher in public finance?

Vito Tanzi. It is an interesting question, because I have an unusual background. In high school, I went to a specialized school, called "Istituto Nautico" in Italian, a naval school. It was a very good and demanding school, but a school for becoming captains of big ships. Actually, I have a diploma that I could use to be a captain of a big ship.

Elena Andreeva. So you gave up that exciting future?

V. T. Well, in the fifties people of that profession made a lot of money. All the people that I knew who went to that school with me are rich, because they got a large salary. But I was not interested in this career. Speaking of my family background, in the town where I then lived, in Italy, there was a shipbuilding yard, a place where they built ships. It belonged to my grandfather. Back then my father was also involved in it. This is why I went to that particular school. It was more a decision of my family than my own decision, but I was not much interested in that career. When I graduated from the school, I had two options: one was to start the career to become a captain of a ship and make money. The other alternative was to go to the university. I decided to go to university. I started taking courses in law and economics. I became more interested in economics, I found it to be a very interesting field, so I decided to continue to study economics.

Later my family moved to the United States for a while, and afterwards they returned to Italy, but I stayed in the United States to continue my studies. I think I was the first Italian who went to Harvard for a PhD in economics and the first Italian to graduate from it. At Harvard, there were very famous economists, some of them Russians, and two of them received the Nobel Prize in Economics: Simon Kuznets and Wassily Leontief. I studied with both of them.

E. A. Were they your tutors?

V. T. Yes, they were my teachers. I also had teachers from Germany: one of them was Richard Musgrave, and there was another brilliant, young man, Otto Eckstein (he was then the youngest full professor at Harvard, and became rich and famous). Unfortunately, he died of cancer at a young age. Eckstein had developed cost-benefit analysis for social projects. I did my dissertation with him, and with Musgrave as the second reader. My first paper that was published at that time was written with him. I became very interested in public finance.

My wife and I are now in Moscow, and from here we are going to Budapest for three days. I do not have any academic activities in Budapest: we are just seeing some friends. My wife and I got married 22 years ago, and for our honeymoon we went to Budapest for three months in 1997. It was at the invitation of a very prominent Hungarian economist, János Kornai. I was supposed to see him next week, but I received an e-mail saying that he could not make it because his wife was ill. From Budapest, we are going to Italy for three days, where I am presenting a book, written in Italian, about the Italian unification in 1861. Italy used to be seven countries until 1861; it combined the seven countries, and my book is about the economic consequences of that. Some people are interested in the parallel with the European Union: what happens when you take several countries with different languages, different laws, different everything, and combine them into one. The book was originally published a few years ago. This is the second, better edition, published 2 months ago [Tanzi, 2018b].

Then we are going to Warsaw, where there is a big conference in honor of [former Polish Deputy Premier and Minister of Finance] Grzegorz Kołodko. Some prominent economists are attending, including Professor Edmund S. Phelps, the Nobel Prize laureate. I wrote two papers in honor of Kołodko (published in *Acta Oeconomica*), they both deal with stabilization policy.

After Keynes wrote his famous book in 1936, there were many criticisms of stabilization policy. My first paper involves criticism of it as such. The second one evaluates stabilization policies after the big crisis of 2007–2008 [Tanzi, 2018c, 2019]. It is about what had changed in what I call the ecology of systems, or the economic ecology. I argue that the economic ecology has changed in a way that has made stabilization policy less effective than before. One reason is—and this is the example I give in the paper—that if you take the statistics on the United States and go back to 1910 or 1920, you will find that 80 percent of the people employed at that time were working in agriculture, transportation and related fields. Today, the proportion of employment in these activities is less than 10 percent. The number of activities has grown enormously as well. As reported in the U.S. Department of Commerce, there are now about 500 official professions. So if you have a stabilization policy, it is very difficult to decide what instruments to use, what taxes to cut, and what spending to increase, to affect all these activities. People have become very specialized, and moving from one job to another has become very difficult. Before, if you were growing grain and you wanted to grow peanuts, switching from one to the other was not at all complicated, but now, if you are a taxi driver and you want to be a brain surgeon, it is much more difficult. Even within fields such as medicine people have become much more specialized.

The second paper on economic stabilization also describes why it has become so difficult to stabilize the economy and draws the main and very important conclusion—the conclusion that people often forget—that if you want a stabilization policy when you need it, that is before or during a recession, you must have your fiscal account in order. That is something that Russia is doing relatively well: you have very little public debt and you have very little fiscal deficit, in fact you are now in surplus. And so, if before you should need to use a stabilization policy you have what I call the right initial conditions—very little debt, not a high fiscal deficit, and not too many structural obstacles in the economy—to use the stabilization policy is a positive way, and it will probably be effective. If you do not have the right conditions—like Greece and Italy, where the initial conditions are not good, because they have high public debt and high deficit—then it is unlikely that the stabilization policy will succeed. This is the point made in the second paper.

Another important point is that people often confuse economic growth and economic expansion. Economic expansion comes when an economy is depressed because of a recession. So you can have a fiscal policy that makes you grow again and the economy gets better. But growth is another story. Growth is a long-term phenomenon. It depends not only on aggregate demand, but also on the many structural elements of the economy. If you have numerous rules that make it difficult for people to switch from one occupation to another and to move from one area to another, and for investors difficult to invest, then economic growth is not likely to occur. I think Russia suffers from the latter obstacle rather than from the former. You have good macroeconomic accounts, but too many bad regulations. I think the prime minister, or somebody else, mentioned that you have some 9,800 regulations.

Clearly, you need to do a lot of pruning of these regulations. I do believe that regulations can be useful. If you do not have good traffic regulations you have a lot of accidents. But there are some regulations that are not necessary and can be damaging. They are in the books because in the past someone put them there, and the government has not taken an interest in removing them. I think that this is where Russia probably needs to make a big effort. Make an inventory of all the regulations and ask the question: why do we need each of them? If you do not need them, get rid of them. Many of the regulations are unnecessary and damaging. And some invite corruption.

E. A. There is a huge lobby behind them.

V. T. Yes, often there are private interests behind some or many of them. And it is clear that you want to get rid of these, but they are difficult to remove because there is the interest of some lobbies behind them. If I had to give advice, with the very little that I know about today's Russia, that is what I would suggest doing.

I used to know a lot more about Russia in the 1990s, by the way. In 2010 I wrote a small book called *Russian Bears and Somali Sharks* [Tanzi, 2010]. I gave a copy to RANEPA Rector Vladimir Mau. Half of the book was on Russia, and the rest on different countries: Hungary, Croatia, Lebanon, Somalia, and some others. The second part would not interest you: just focus on the Russian part, only about a hundred pages or so long. It may be an interesting though impressionistic historical document, because it deals with Russia in the 1990s, an intriguing time for the country. At that time I was occupying a high position at the IMF, and I came to Moscow at the invitation of the Russian Government, to assist in developing institutions which at that time Russia did not have: a tax system, a tax administration, or a Treasury. We sent top experts to give advice on these. I saw how the Russians were dealing with some problems. A person that I recall well in the government at that time was Alexander Pochinok, is he still alive?

E. A. Unfortunately, he died.

V. T. He was an interesting person. I had several meetings with him. I might be wrong in some of my descriptions in that book, but I saw the situation the way an outsider would see and describe it at that time. The first time I came to Moscow, it was probably the worst period for Russia. There was little food, the shops were empty, and there were long lines in front of shops. People got in lines before they even knew what was for sale. From that point of view you will find it interesting and realize how much change there has been since then.

Yu. K. Let us return to Italy for a moment. What do you think about the nature of the Italian crisis? We hear about the Italian debt conundrum every day. On the one hand the Italian economy is strong, but on the other its fiscal system is not. I read that Italy has been in primary budget surplus for almost 20 years, but it did not help it to emerge from fiscal problems.

V. T. Well, let me make some comments on that. Firstly, you may know that I was in the Italian government as Under Secretary for Economy and Finance, in 2001–2003. Secondly, I wrote another book about Italy some years ago; unfortunately also in Italian. It is called *From the Economic Miracle to Stagnation* [Tanzi, 2015]. I should share with you some background of this book. The book reports my impressions about Italy over about 40–50 years. In 1974, when I was a university professor in Washington, I had a "sabbatical year" and spent it in Italy. That was the year when there was the oil crisis. I was invited to the University of Rome by two prominent professors of that time. It was a period when everybody was pushing the Italian government to spend more, to get out of the crisis. At that time that was the common view, you spend to grow. Everyone had become a Keynesian! And the Italian government started spending money that it did not have and spent it badly.

If you look at the Italian statistics from 1945, at the end of the Second World War, until 1975, the Italian economy grew at the real rate of 6 percent annually, for 30 consecutive years. That was a phenomenal rate, almost at the level of China in recent years. So Italy went from being a poor country at the end of the war, when much of its capital had been destroyed, to becoming a rich enough country to be part of the G7 group. The level of per capita income in Italy rose close to 85 percent of that of the USA. It did this with little public spending and little public debt. Then, the oil crisis came.

As mentioned above, by 1974 everyone had become Keynesians. The Italian Supreme Court made a change to the 1947 Constitution of Italy. The constitution had a clause that did not allow fiscal deficits. By the late 60s, Keynesian economics had become so influential that the Constitution was changed. It changed the clause a little, stating that Italy could have a fiscal deficit as long as it could finance it. It meant that if the government could sell government bonds to finance the fiscal deficit, then the deficit was OK. From that moment on, Italian spending went dramatically up, and so did the tax level and the public debt. Over the next 20 years, from around 1975 to the year 2000, Italy's growth fell from 6 percent a year to less than 2 percent. The economy was still growing, but there was the problem of the public debt. In 1992, Italy almost went bankrupt. The public debt had gone up dramatically, and the Amato government had to introduce large taxes, overnight on bank accounts, to prevent the bankruptcy. Later, after the European Monetary Union was created and Italy became a member, the situation changed.

In 2001 I was the president of the Italian commission that had to make practical decisions for the physical introduction of the new euro currency. They were interesting decisions! For example, at 11:55 pm on

January 31, 2001 one could still only use liras. Five minutes later one had to use euros. Billions of euros had to be physically transported to the banks and there were concerns about what would happen if the Mafia interfered. There were various decisions that had to be made.

When the euro came, Italy got a tremendous benefit, because it had a large public debt, 120% of GPD at that time already. Italy was paying 12% interest on that debt. After the euro was introduced Italy had to pay just 5–6% to service the debt. So it was a tremendous benefit for the government. But instead of saving it and reducing the debt, the Italian government kept spending. That became the real problem. Having a primary budget surplus is not meaningful if you have a large public debt on which you have to pay a high interest rate. Draghi made the servicing of the debt easier with the ECB's easy monetary policy.

Then there was the issue of national growth. The level of *per capita* income in Italy today is the same as it was in 2000, whereas the share of Italian *per capita* income vis-à-vis that of the U.S., which, as I already said, had reached about 85% around 1980, is now much less, below 65%. So there has been no real growth for 20 years. Italy is going the way of Argentina, another country that I was very much involved with over the years.

In 2007 I wrote a book about Argentina. A second edition was published in 2018. The book is in English, and is called *Argentina, from Peron to Macri* (Mauricio Macri was the president of Argentina in 2018) [Tanzi, 2018a]. It is an interesting and not technical one. It presents my impressions on Argentina, on its culture, on its tango, and on the beautiful places to visit for tourists. It also presents my thoughts on its economy since the decade of the 1950s.

You may have heard of the Tanzi effect that became important in the transition period of the 1990s, when several transition economies, including Russia, experienced high rates of inflation. The effect was originally developed in the 1970s in connection with Argentina. It is described in the book and also in Wikipedia. The situation with Argentina bears some similarity with that of Italy. At the beginning of the last century, Argentina was among the richest countries of the world. Its per capita income was twice that of France and was much higher than that of Japan. By now it is a developing country with many problems. Italy is risking also going that way. If Italy does not make some major structural changes, if it does not eliminate many bad regulations and if it does not reduce its public debt, it will continue to stagnate. I am not a *laissez-faire* person, who says "just wash your hands"—I do not believe in that. I believe that the government has to play a useful and efficient role, as I said in my presentation yesterday. Ideally the government should have the knowledge of Google, the wisdom of King Solomon and the personality of Mother Theresa. Unfortunately it does not have those qualities but it should try to play a useful role. Governments should learn to spend well and to avoid accumulating high public debts.

Yu. K. Our next question is about the universal kind of welfare schemes that you praise in some of your works, in particular in the paper published in *Economic Policy* last year [Tanzi, 2018e]. I studied the situation in Finland, and I have some doubts about it. In Finland, they are trying to introduce universal basic income, but there are some problems. First, it could not be introduced on a general basis, to replace all kinds of benefits, because various parts of the country are very different, and thus it would not work well. If universal basic income is set numerically equal, it will not really be equal because the cost of living is very diverse across different parts of the country. If they try to compensate for inequality of the cost of living, the entire idea falls apart. But even if this factor is eliminated and the universal benefit replaces not all, but only part of the existing benefits, there are other problems. For instance, in parliamentary systems the government is usually a coalition, and all reforms are drowned in this morass. And the Finns have been trying to introduce not only universal basic income: they have been attempting to rationalize their system of social services, including healthcare, but this reform was halted because numerous stakeholders are not interested in it. And their party system blocks the unwanted decisions. So there are at least two factors: the inequality of equality, so to say, and political rigidity.

V. T. Inequality of equality and political rigidity are clearly formidable obstacles. The transition from current systems to universal systems could not be easy or simple for some of the reasons that you mention. Let me provide a background on this. First of all, I should mention that my own thoughts on these issues have changed dramatically in recent years. When I wrote the book *Termites of the State* [Tanzi, 2018d], I was thinking a lot about what was happening in various countries. Because of this slow thinking, I realized that my own views were changing, and in a relatively expected direction. So I have to give you a background for some of your questions.

Welfare states were created after the Second World War, starting largely in the UK, with the Beveridge reforms. Beveridge was an economist at the London School of Economics. In 1942, during the war, he wrote a report proposing a welfare state. Strangely enough, even though at that time there was scarcity of everything and people did not have much money, in the UK the report became a bestseller.

At the end of the war, against the opposition of Churchill, the UK decided to go ahead introducing the welfare system. At that time the views diverged in different countries. They diverged dramatically—and became more and more diverging as time passed. Most countries wanted to economize on increasing taxes. You do not want to increase taxes too much, because taxes are damaging, and all this, and universal programs are expensive. So some countries decided to have a series of welfare programs that were focused on specific groups. The poor, they tried to clarify the definition of poverty, and they had a program for that. Then there were the sick, and they tried to identify who was truly sick. Then there were poor who were illiterate, and they tried to identify programs for them; and those who had no housing, and they tried to identify a program for them, too. So this is what became the means-tested approach. The means-tested approach has the potential benefit of reducing public expenses.

At the same time a new way of thinking came into circulation mainly in the U.S. A lawyer form Harvard, not an economist, named Stanley Surrey, developed the idea that the tax system could be used to promote directly some of the same social objectives. He introduced the concept of "tax expenditure". For example, if you pay money for the mortgage on your house, this expense could be deductible against your taxable income. If you spend money to buy healthcare, this expense could be deductible. If you spend money to educate your children, this could also be deductible. These and many other tax expenditures were introduced in the tax system. So the matter took two directions: one was the creation of many means-tested programs. The other was the use of tax expenditure that made the tax system become like Swiss cheese, with many holes in it. This had the objective of keeping the tax level low, due to all these tax expenditures, tax regulation, tax incentives, tax whatever. Also government expenditures did not increase dramatically, because the spending was limited to those who, in theory, needed it. This was one way.

A few countries took a broadly different route. The main ones were Sweden, Denmark, and some others. They developed more universal social programs. They said, well, let us see what are the main risks that all people face in a market economy. One risk is getting sick. If you get sick in the United States you risk going broke, because healthcare is very expensive. If you need to have surgery, it may require many thousands of dollars. Now everybody faces at birth the risk of getting ill. At birth you do not know whether you are going to get sick at some point in your life. So if you have a universal health program, which you try to keep as efficient as possible, and available to everybody, it is going to cost money, but it is available to everybody, eliminating one of the fundamental and universal financial risks.

What is another risk? The risk that you will grow up without any education to be productive. In today's world, skills, education, and human capital are very important. If you have a private healthcare system, or private education as in the U.S., when your children need to go to the university you have a problem, I have got that kind of experience myself. One of my sons works for the Bloomberg Network and his wife is a schoolteacher. They have a reasonable income. They also have two twin children. Two years ago the children were 18, and they both went to two private universities, because public (state) universities are also expensive and it is hard to get in since they now prefer to accept Chinese students who can pay very high tuition fees, rather than Americans from the state who pay lower tuition. So from one day to the next, my son needed more than a hundred thousand dollars a year, just to pay for tuition. In spite of the fact that they have good jobs, that was far from enough and they had to borrow a lot of money. In the USA today, many people who graduate from universities graduate with hundreds of thousands of dollars of debt, because they have borrowed money to pay for the tuition. People in their fifties are still paying for their debt. This has become a major risk. If a country has a free, public education system, then again, it will cost to the government, but it will eliminate one of the major general risks in the society.

The third general risk is old age. The risk is that you stop working at 65 or something like this, and when you stop working you have no income from work. Again, people can have private pensions, but they are very expensive, you do not know what the stock market is going to do, and you may end up with little or no income in your old age. Therefore this is another major and universal risk. Why not have a social, government guaranteed pension for everybody? When you retire, the government will guarantee you a certain amount of money. If you want to have more than that, it is your problem: you can go to the private sector and buy an annuity.

There is another major risk that could not be more complicated: it is unemployment. The unemployment benefit has to always be limited in time, otherwise if people get permanent unemployment benefit they will never return to work. But if they get unemployment benefits for limited periods, they may go through a retraining program and will look for new jobs.

Anyway, three of the major risks I mentioned—health, education and retirement—can be covered by the government through public spending. This shifts the question to the tax side. If a country wants to cover the above risks universally, it will require more public spending than an American system of welfare programs, where a program selects those who are supposed to need help. But how will the country cover the higher spending? It will be necessary to use taxes on tax bases which are as broad as possible.

The Scandinavian countries have taxes that have very few loopholes. They have high value added taxes on broad bases: 25%, even 27%. So the government gets 25% of everything one buys. Of course, there is always strong pressure to eliminate some expenditures (necessities) from the base of the value added tax... Anyway, the government can get a lot of money from this tax. And one can also modify the income tax, as they did in the Northern European countries, where there is a tax on capital income, which is proportional to the income received. Any money that one gets from capital sources—interest, dividends, capital gains—all of it is taxed at a flat rate without any deductions. The government just takes the money, and that is the end of the story. Citizens do not even have to declare these incomes. And then there is an income tax on normal incomes, which is slightly progressive to maintain some equity, but not very progressive, and with no loopholes. There are no tax exemptions, no incentives, nothing. So there is simplicity on both sides: on the expenditure side and on the tax side. This brings the level of taxes and of spending up. In Denmark or Sweden they spend more than most other countries, but if you look at their system of taxation, there are very few complaints, because people know that when they buy something they simply pay 25% more, and the government is getting a lot of money that is spent to cover important universal risks.

Compare this with what has been happening in the U.S. The means-tested program, in which you give poor people money to buy food, and they may buy alcohol, puts more and more pressure on the government to expand the program and is subject to corruption. The reason is that, if you have a means-tested program which selects a group for getting free food, you have pressure on the administrator to enlarge the group. In the city of Washington, 30 percent of the population receives food stamps! On the other hand, you also have pressure on the side of the taxpayers. The USA is the only advanced country I know where the average level of taxation (the share of taxes over GDP) has not changed in fifty years. Of course, there have been major changes in the distribution of the tax burden. In 1986, the Reagan government introduced a major tax reform, and within it the very rich (those with million dollar incomes a year, and there are a lot of people like that in America) saw their marginal tax rate fall from 70% in 1980 to 28% in 1988. That was a tremendous redistribution of income in favor of the very rich.

The third part of my book, *Termites of the State*, deals with the fact that many people in the United States are faced with a very complex tax system. There are now around 90,000 pages of rules and regulations which relate to the tax system. Ninety thousand pages! I have top training in public finance, I have written at least two books on income taxation, I was head of the tax policy division of the IMF for 7 years and head of the Fiscal Affairs Department of the IMF, and yet I cannot prepare my own tax return anymore, I have to hire an accountant. In principle, I could do it, but it would take me a month to try and find all the rules and it is just not worth my time. So I hire an accountant, and my wife puts together all the information on our income and passes it over to the accountant, who charges a very large amount of money. And I am not a rich man. This is the state of affairs. You have a situation where there is a strong reaction against taxes, because people feel overtaxed, even though in practice they are paying far less taxes than the Swedes, or the Danes, or the Austrians. This is really what has happened with a system that tries to accommodate through the tax system many individual social needs.

So if I were to give advice to a country, it would be: create an environment in which there are universal programs to deal with the major universal financial risks. When there are many specific programs that try to accommodate many differences among citizens, it becomes very difficult to do it well and also to undo the existing situation. It is better not to get it into this situation. Maybe you in Russia, if you are in the position to influence the government, could say: think clearly. What are the major financial risks that most citizens face in Russia? Try to deal with those common risks for the people. These might be health risks, risks associated with lack of education, or with old age.

Yu. K. So the idea is not to begin to create this problem. However, if it is created, it is very hard to undo it.

V. T. And the worst that can happen is having both types of systems. There are some countries that have both: a universal program and many specific programs. We can see this in the Italian case. In Italy, everybody talks about austerity in the government. But then you look at the statistics, and the government spends 50% of GDP (compared to Russia's 30-something and the same level as Sweden)! So how can you have public austerity if you are spending 50% of your GDP? What happened is that they have both systems, and the worst is when you end up with both, because then you have all the complexity that I was talking about.

Now, let us take Sweden. When you calculate the level of taxation in Sweden, you have the statutory rates—the legal rates—and then you take the actual rates, the real rates. The two are almost the same, there is very little difference. If you did that for the United States, for corporations, the corporate income tax used to be 35%, and everybody complained about that level. But the actual payment by corporations was half the statutory rate. There was an ENORMOUS difference! Of course, when you have this difference, some enterprises are still actually paying 35%, but some are paying much less or not paying at all, so that is the problem. Avoid the complexity! Economists and politicians always think that they can produce schemes to help some groups of citizens, but when this becomes a regular process, complexity sets in over time. It is a cumulative process: the more time passes, the more complexity is accumulated [Tanzi, 2018e]. Statistics for the U.S. indicate that before World War II, the total number of pages for tax laws and tax regulations was less than 500. Now it is 90,000.

Yu. K. There is another aspect to this. Said complexity concerns not only the fiscal or the welfare system, but any regulation in general.

V. T. Regulations can be a disaster! In my recent book, *Termites of the State*, there are two chapters on regulations. They discuss all the good reasons why regulations are necessary. But there is also the point that many of the regulations imposed by governments are either not needed, or lobbies push them. And that is the game. One of my very radical ideas about regulations, which I shared in my presentation to the Prime Minister of Russia, is that all regulations should have a sunset clause, that they should stay for a limited time, say 5 years, and then they should have to be reapproved. Or there should be an office that should look at all regulations and evaluate them every 5 or 10 years. Otherwise, once a regulation is created, nobody looks at it anymore; somebody benefits, somebody gets damaged, but the political process no longer plays a role.

In this respect regulations are like "tax expenditures". The difference between tax expenditures and actual spending is that you have to go to Parliament, and Parliament has to approve the spending, and reapprove it every year when the budget is debated. But a tax expenditure—once it is in the books, it is there forever. So regulations are a headache. I remember the Prime Minister mentioning that there are 9 or 10 thousand regulations in Russia, probably more. Also, by the way, people always focus on regulations at the national level, but there are many regulations at the sub-national level (municipal level and provincial level), which may also be unnecessary and damaging.

E. A. But how do you introduce change?

V. T. I was for many years worried by the arguments about the damage of high taxation, that high taxes discourage people from working. Then I looked at the statistics for the Scandinavian countries. Surprisingly most good indices, such as the productivity index, are very good. Their labor participation index is the highest in the world—and this is in countries with the highest tax levels.

Yu. K. There is also research that says that people from Scandinavia are very successful in the U.S. Maybe it is because of their work ethic, because they are more robust.

V. T. You know, I have never bought this argument, the argument that the Swedes are just different from the Russians and the Italians. I never bought that. I think that the rules that prevail in countries make the people. Maybe they are different in some ways, but in Scandinavia government spending is not necessarily damaging to economic growth. This morning I looked at the statistics of the Gini coefficient. If you look at the Gini coefficients of income in Scandinavian countries, they are very low. Denmark has the lowest level in the world. But if you look at the Gini coefficients of wealth, they are not so low. In fact, they are high.

So, because of the system of taxation and spending, they have a lot of freedom in making money. They are not impeded in Norway, in Sweden or in Denmark from activities that allow them to make a lot of money. But in the process, they are taxed enough and in a broad enough way, and then that money is used efficiently, not for the lazy ones, but for everybody. The spending becomes an insurance premium against systemic risks faced by all citizens. A common argument in Anglo-Saxon countries is that the lazy depend on the government and that the government is for the lazy. The reality is that most people want to have jobs and productive lives. They do not want to be poor.

Going back to the case of my grandchildren, the children of my son: if they did not come from a family with a relatively good income, what would they do? They would not have the option to go to a decent university. Some data on the U.S. are really striking, including differences in life expectancy, and in income between regions. The difference in life expectancy can be as great as 20 years. The same goes for schools. Some schools in the U.S. are among the worst in the world. On the other hand, you have Harvard, MIT, Yale and others that are the top schools in the world. The same is true for the high schools. You have a high school in Washington that costs 30 thousand dollars per child per year—30 thousand dollars a year to send a child to a high school! These are the high schools with the best teachers. Other schools are terrible. So you have a process that develops lifelong discrimination. These problems are in part preventable.

Yu. K. The last question, about foreign assistance. You write in your book that it may be sensible for developed countries to extend assistance to underdeveloped countries to restrict excessive migration. But, on the other hand, two years ago Prof. William Easterly visited our country and said that foreign aid often goes to inefficient governments and it will not help. What do you think about it?

V. T. Again, there is a conflict between theory and reality. The reality is that many countries like to give foreign aid to countries that are their cronies. In theory, you give foreign aid to assist the poor in that country. In practice, you are buying the support of that country for your policies. I am sure that Russia does the same as the U.S. And this is tragic. Easterly worked at the World Bank for a long time. He knew what happened and was aware of this, but he overemphasized this aspect. As you know, inevitably countries give foreign aid to governments, and not to the poor in the receiving countries. Then the governments may use the money the way they want. So very often this money ends up not where it was intended to end up.

Yu. K. But is it possible to organize the activity of international organizations in such a way so as to help the poor and not the governments?

V. T. In the 1950s there was a strong movement that involved people like Mahatma Gandhi, Winston Churchill, Albert Einstein, and others to really create a world government. Probably they had in mind something like an effective UN, or a UN with real power. In theory, that remains a good idea. In practice, however, you start sending political people to the UN, and the people in the UN start assisting people from the various groups. This is one of the sad things that I learned in my life, that all institutions can, to some extent, be corrupted. That makes it difficult to promote good policies. What is right in theory, what I would write and sign in support of this idea, often does not seem to work in practice.

I am working on a follow-up book where I will probably emphasize more some of these aspects. Among economists there are many theorists who do not worry about these aspects. And there are "market fundamentalists" who argue that governments should let the market take care of everything. In my book on Russia there was mentioned a joke popular three decades ago. How many people does it take to change a light bulb? The reply was that in Russia it took three: one to do the job, one to supervise the process, and one to report it. In a market economy, the answer was that none would be needed because the market would do it!

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