

THE LEGACY OF PUVIANI'S FISCAL ILLUSION BETWEEN MISUNDERSTANDING AND LATE REDISCOVERY

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ABSTRACT

The past year, 2023, marked the 120th anniversary of the publication of Puviani's book, *Theory of Fiscal Illusion* (*Teoria delle illusioni finanziarie*). Over this significant period, we initially observe very few references to his theory, followed by analyses that highlighted its importance in the study of Public Finance. It was only in the second half of the last century that Puviani's theory gained prominence beyond Italy, thanks to Buchanan, who regarded it as inspirational for his theories on the role of the state. Starting from the assumption that fiscal illusions persist because they are highly connected to political illusions, it is necessary to pay attention to the interpretations that politics and philosophy have given to Puviani's writings over the years. This interdisciplinary approach also helps critically evaluate the influence of the Theory of Fiscal Illusions on the theories of Public Choice and transparency.

Keywords: Fiscal Illusions, Democracy.
JEL Codes: B13, D72, H8.

INTRODUCTION

*Le illusioni per quanto siano illanguidite e smascherate dalla ragione, tuttavia restano ancora nel mondo [...]. E non basta conoscer tutto per perderle, ancorché sapute vane.*¹

The issue of fiscal illusion is regarded as one of the most significant challenges in contemporary public financial management (Ross and

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¹ LEOPARDI 1820 [1997].

Mughan 2018). The concept has its origins in the work of Amilcare Puviani (1973 [1903]), and primarily refers to the opacity of budgetary information. Puviani identifies the misrepresentation of fiscal activities and their consequences as the effect of citizens' ignorance or insufficient understanding of budgetary processes. This lack of transparency, or fiscal opacity, stems from what Puviani describes as fiscal illusion, defined as "misconceptions of money paid or to be paid as taxes or of some use of them" (Puviani 1973 [1903]: 6).

Despite its present-day significance, Amilcare Puviani's *Theory of Fiscal Illusion* was not widely recognized at the time of its publication. As Fausto underlines, the work on fiscal illusion "was long neglected, both by Italian scholars and abroad. Only in 1960 the book was translated in German and in 1972 into Spanish" (Fausto 1998: 13).² In the context of Italy, Volpi's analysis (Volpi 1973) underscores that "there is almost no trace in the pages of the main treatises and textbooks on Public Finance published" (*ibid.*: xv) immediately after its release or in the subsequent years possibly due to the dominance of "theoretical systems based on very different assumptions" (*ibid.*: xvi). Initial recognition of Puviani's work appeared in Mauro Fasiani's textbook (1941), which extensively explores the theory of fiscal illusion,³ and in an essay by Felice Vinci (Vinci 1953)⁴ commemorating the fiftieth anniversary of Puviani's death. This delayed recognition is particularly notable given the theory's dominant influence, becoming a cornerstone of modern public finance and public choice theory (Buchanan and Musgrave 1999).

The present study aims to investigate the factors contributing to the initial marginalization of Puviani's seminal work. To our knowledge, this is one of the first attempts to critically position and problematize Puviani's *Theory of Fiscal Illusion* within its contemporary context. To achieve this, four key aspects are considered: (1) the political dynamics within which Puviani conducted his research, (2) the potential influence of political philosophy on his reasoning, (3) the connection with marginalist theory,

² The translations into foreign languages were only two. In Spanish, BEREJO (1972), cited in DALLERA (1987: 111). In German, Puviani was translated by Schmolders, who extensively dealt with the book, with reference especially to psychological concepts, even before the translation, in SCHMÖLDERS (1959).

³ Fasiani acknowledges the presence of *illusion* not only within the Monopolistic State but also within the Modern or Tutor State, a concept he postulates. In this framework, the "ruling class" is oriented towards advancing "the collective benefit", yet, in reality, it predominantly pursues self-interest".

⁴ Even though he was a full professor in Public Finance in 1922, he was primarily a statistician and devoted an article to statistical illusions. Despite his involvement in corporatist circles, he consistently showed interest in the economic thought of Walras and Pareto.

and (4) the theory's relationship to the later development of public choice theory.

This multidimensional approach is motivated by the unique nature of Puviani's contribution to the traditional theory of public finance, which defies straightforward categorization. Puviani's work challenged mainstream economic theories of the early 20th century. Cesare Cosciani classifies the Theory of Fiscal Illusion within political-sociological theories, highlighting Puviani's unique view that the government is an institution subject to the interests of the economically dominant class (Cosciani 1977: 49). Puviani also criticized the voluntary-exchange approach, questioning the extension of hedonistic principles to collective decision-making (Fausto 1998). The complexity of his approach is well-recognized, as Dollery and Worthington (1996) demonstrate in their influential work. While Puviani drew on English classical economics (e.g., J.S. Mill), his ideas also served as a foundation for modern public choice theory. James Buchanan, in particular, revived interest in Puviani's work, dedicating a chapter of his seminal text to "Puviani and the Fiscal Illusion", wherein he noted that Puviani's ideas were scarcely acknowledged in Italy than elsewhere (Buchanan 1960: 59). Further references to fiscal illusion appear in the works of Downs (1957) and Wagner (1976), as acknowledged in Dollery and Worthington (1996).

Given this, a more nuanced interpretation is required to fully understand the trajectory of Puviani's work. This paper focuses on the aforementioned four aspects informed by Puviani's writings and subsequent interpretations. Regarding the political dimension, Puviani conceived fiscal illusion part of a broader political illusion, referring to "erroneous political judgments by social masses" (Puviani 1973 [1903]: 5). This implies that the development of his theory is inextricably linked to the political environment of his time. Philosophically, Puviani's earlier work, *The Bourgeois Economic System in Relation to Civilization* (1883), reveals his engagement with contemporary political philosophy debates, which likely influenced his later writings on fiscal illusion. Economically, Puviani's theory directly challenges marginalist financial theories, contributing to its initial lack of acceptance among mainstream economists. Finally, the rediscovery of fiscal illusion theory, first by public choice theorists and later by political economy scholars, reflects a shift in its interpretation. Public choice theorists, in particular, reframed fiscal illusion as a normative issue concerning optimal fiscal behavior, diverging from Puviani's original intent, which focused on the synthesis of collective preferences in a democratic context (De Simone 2010).

The remainder of this paper is structured around a detailed exploration of each of these aspects, beginning with the political and philosophical

influences, moving to its connection with economic theory, and concluding with reflections on public choice theory, especially in the context of budgetary democracy. The overarching conclusion of this analysis is that Puviani's original conceptualization of fiscal illusion provides a distinct interpretative framework that differs from the later interpretations associated with public choice theory.

1. THE POLITICAL INFLUENCE

Amilcare Puviani graduated in law from the University of Bologna in 1876, under the mentorship of Giuseppe Ceneri, a distinguished jurist, senator, and republican. Ceneri is notably recognized for defeating the right-wing candidate Marco Minghetti in the 1869 elections and resigning as a deputy in 1870 due to his republican stance and refusal to pledge allegiance to the monarchy. Following his graduation, Puviani relocated to Rome, where he began his legal career and established a friendship with Camillo Prampolini. Prampolini was initially involved in the Socialist Movement and later co-founded the Italian Socialist Party (PSI) in 1891. Additionally, Puviani served as a socialist municipal councilor in his hometown in the province of Modena (Volpi 1973: xvi).

Buchanan (1960) critiqued Puviani's approach to public finance, which portrayed the State as "monopolistic". According to Buchanan's reasoning, Puviani conceptualized the fiscal system as being organized by a ruling class, in contrast to a democratic political structure, where fiscal decision-making should reflect the preferences of the electorate. The functioning of budgetary choices, which do not represent the synthesis of a perfect competition among heterogeneous preferences (as illustrated in Pantaleoni's 1938 "Contribution to the Theory of the Distribution of Public Expenditure"), demonstrates that Puviani did not adhere to "economics understood in the Marshallian sense" (*ibid.*: 24).⁵ Puviani rejected the notion that the state budget could represent a perfect equilibrium of community preferences. Based on this reasoning, one may contend that Puviani was not actively engaged with the political debates of his time concerning the challenges of representative democracy.

This perspective, however, is contradicted by Faucci, who includes Puviani among public finance scientists who "far from retreating into a kind

⁵ It is possible that the inspiration also stems from Pareto's opinion, who considered Marshall's mathematical economics to be erroneous, leading to an intense Croce-Pareto controversy in 1900-1901. However, it should be noted that Fasiani (FASIANI 1929; FOSSATI 2018: 19) links the concept of financial illusion to Marshall's concept of consumer surplus.

of *turris eburnean* most of them have actively participated at various levels – in the government, in Parliament, in public administration – contributing significantly to the politics and financial legislation of the country” (Faucci 1985: 103).⁶ Puviani had several connections with some political figures⁷ and, in particular, with Robert Michels (1912)⁸ and he was personally engaged in politics, also because he served as a municipal councillor for the socialist party. Discussing about the increase in public spending, he argues that: “if a great result has been achieved [...], another thing has not been achieved, that it cannot be diverted upwards for class purposes, that it cannot be taken preferably from certain classes, that it cannot be used especially for the benefit of certain others” (Puviani 1973 [1903]: 106). This leads to the conclusion that “publicity is maximally necessary in everything related to public finances” (*ibid.*: 68) suggesting a best practice which should be applied in Parliament where, indeed, budget decisionmaking is “a dark, mysterious region, full of surprises” (*ibid.*: 81). In the year of his *Theory*'s publication, there was still no *universal suffrage* (which would only be implemented in 1912, exclusively for males), a situation similar in the United Kingdom (1918), Russia (1917), and the USA (1920). The electoral system in force at the time, normed in 1882, was applied exclusively to male voters aged at least 25 who had either passed the elementary school exam or paid an annual contribution of 19.8 lire (equivalent to 90.73 euros). In the 1900 elections (ISTAT 1990), there were approximately 2.2 million voters, with around 1.3 million (58.28%) casting their votes. The Historical Left party, led by Zanardelli, was in power. If we consider only males aged 25 and older, there were approximately 7 million residents, with only about 18.6%⁹ participating in the voting process. The lack of universal suffrage, along with the minimal parliamentary representation of Puviani's political party, the Italian Socialist Party (PSI), which held less than 1% of the seats, were crucial elements shaping his reflections on fiscal illusions, which he argued were rooted in political illusions. As Di Majo explains, the two are intertwined because Puviani “adheres to a class-based vision of public financial activity. After observing that both history and the reality of his time reveal that citizens receive fewer benefits from public activity than the

⁶ Quoting Puviani, he recalls the existence of “interests carried by the ruling class, the imperfect knowledge of ends and means” (PUVIANI 1973 [1903]: 109).

⁷ Regarding scholars of public finance, a mere mention of NITTI (1958) might suffice. However, for a thorough and rigorous description, we defer to MARONGIU (2010).

⁸ During Puviani's era, Michels initially aligned with the socialist camp but later showed sympathy towards fascism. This transition is elaborated upon in FAUCCI (1989) and further explored in PASETTI (1999: 729-750).

⁹ Our analyses are based on data from ISTAT, serie storiche.

costs they bear, he concludes that this derives from the nature of the State, which aggregates forces to defend the interests of a specific class against the rest of society” (Di Majo 2010: 100).

This raises the issue of whether Puviani regarded the electoral system of his era as representative, borrowing Fasiani’s term, of the *Monopolistic State*, thereby anticipating its evolution into a universal suffrage electoral system capable of establishing a *Cooperative State*. Puviani’s assertion that “political illusions [...] involve the mistaken judgments of the social masses” (Puviani 1903[1973]: 15), suggests that the transition from the Monopolistic State to the Cooperative State (utilising De Viti’s terminology), under equal circumstances, would indeed reduce the prevalence of political illusions (Puviani 1887), though it would not eradicate them entirely. Moreover, in relation to their increased incidence in public spending, Nitti’s observation regarding the “significant expansion of investments in public works, not always attributable to the prevalence of the common good or sentiments of solidarity, as examined in Puviani’s insightful writings” (Nitti 1958: 223), provides additional context. In a broader sense, one can consider Dallera’s insights (1987: 46), Schumpeter’s reflections (1954) on democracy, Hirschman’s considerations (1970) on loyalty and dissent, and Tony Judt’s commentary on “how we live now” (Judt 2011: 10) further contributions to the broader interpretation of these dynamics.

2. THE PHILOSOPHICAL INFLUENCE

Puviani lived during a period marked by conflicting cultural dynamics. While he aligned himself with the influential tradition of the German historical school, he was also influenced by French Positivism, though not exclusively tied to historical materialism. Along with Loria, Puviani was regarded by Michels as one of the first true Italian scholars of Marx’s economic thought, particularly due to his 1883 publication, “Del sistema economico borghese in rapporto alla civiltà” (On the Bourgeois Economic System in Relation to Civilization). According to Michels, “by studying Marx, they [Puviani and Loria] revived Italian political economy, which had, for the previous twenty years, limited itself to adhering to the theory of value” (Mornati 2012: 10).

Dallera (1987: 24) observes that Puviani adhered to an organic-evolutionary framework, which would later prove to be of significant interest, as it enabled him to envision the decline of the bourgeois system and the evolution toward a more robust socio-economic structure, contingent upon the abolition of land rentiers. In reference to Puviani’s aforementioned work, Volpi notes that the pages are “written in a colorful

and imprecise style, filled with continuous questions and rhetorical exclamations, burdened with unexpected information and woven with the most unpredictable citations" (Volpi 1973: 21). Dallera, referring to Puviani's 1887 publication, finds that the citations are well-constructed and precise, "ranging from Spencer to Heraclitus, Aristotle, Homer, Hobbes, theorists of natural law, Democritus, Machiavelli" (Dallera 1987: 24). In this work, Puviani delves into public finance from an "ethical perspective", arguing that it should always be grounded in principles of morality (*ibid.*: 25).

Political philosopher Sergio Caruso highlights that "Puviani's considerations [...] exhibit aspects, so to speak, of political philosophy and notable insights into the general doctrine of the State" (Caruso 1974: 58-63; 1989: 249-255). It is believed that Puviani's exploration of fiscal illusion – viewed as a specific aspect of the broader concept of political illusion – led him to address what is now commonly referred to as the "problem of ideology" (Caruso 1989: 250), although Puviani never explicitly used this term. Amid substantial intellectual isolation within the academic field of public finance and formal detachment from philosophical discourse, Caruso notes that the Theory of Fiscal Illusion begins with a quote from Machiavelli, highlighting the divergence between reality and appearance – a contrast that emerges as explicit and arrogant in modern times, in contrast to the harmonious corporatism of the medieval era. Caruso further reflects that such divergence in contemporary ideologies leads to a belief in "the triumph of the division of labor and the final constitution of civil society as an entity external to the State" (*ibid.*: 252).

Puviani evokes Machiavelli's principle, according to which "the masses always follow appearances" (Puviani 1973 [1903]: 12). However, coercion tends to become less violent over time, an *appearance* that turns to be concrete when it relies on *political instruments*. The genesis of *ideology*, construed as the public image of power, according to Machiavelli, drives the prince to behave like *a bit of a fox and a bit of a lion* (Puviani 1901).¹⁰ Puviani's aim is to identify the specific behaviors of the *prince* in the modern State. It is illusory to think that the presumed sovereignty of the citizen (heavily influenced by the dogma of taxpayer sovereignty) realizes the *quid pro quo* relationship in Public Finance which is at the root of the benefit principle. Puviani believes that political and fiscal illusions, being used to manage fiscal discontent, represent an obstacle to the realization of a fiscal

¹⁰ PUVIANI (1901), reprinted in DALLERA (1987: 172-184). Puviani references Machiavelli's assertion that "a prince must know well how to use the nature of the beast; he should choose from among the beasts the fox and the lion" (MACHIAVELLI 1960). "Golpe" refers to "volpe" in the Florentine dialect, meaning fox.

exchange (Puviani 1973 [1903]: 362-366): the *optimistic illusions*, concerning public revenue and spending, “serve to obscure a significant portion of citizens’ tax burdens and create the impression that many superfluous or detrimental public institutions and activities are beneficial, exaggerating the efficacy of State-initiated reforms. Thus, it can be argued that, by virtue of optimistic illusion, the State attains greater stability” (*ibid.*: 32). Caruso further observes that formal democracy replaces absolute sovereignty with *ideology*, equivalent to what Puviani refers to as *fiscal illusion*, a particular aspect of the broader *political illusion*. Analyzing these illusions can lead us to consider psychological factors:¹¹ following Puviani’s perspective, individuals tend to behave in financial matters through erroneous interpretations, inadvertently contradicting their own interests.

3. THE ECONOMIC INFLUENCE

It is widely acknowledged that the period during which Puviani was actively engaged in scientific endeavors coincided with the emergence and consolidation of marginalist theory. Therefore, it is crucial to examine the relationship between Puviani and this theory. Some scholars suggest that “Puviani became aware of marginalist theory much earlier than its general acceptance in Italy” (Da Empoli and Goetz 1976: 118), while others argue that “the events in Amilcare Puviani’s life, as analyzed by scholars in Public Finance and Economic Policy, demonstrate the challenges his theories faced in gaining acceptance” (Dallera 1987: 17). McLure (2007) positions Puviani’s work, along with the contributions of Conegliani and Montemartini, as among the most significant from a political perspective in public finance. These works offer critical insights into the hedonistic viewpoint, particularly regarding the ruling classes’ motives in utilizing financial resources.

According to some scholars (e.g., Fausto 1998), the theory of fiscal illusion imposes a fundamental limit on the voluntaristic approach to public finance. Puviani, while “acknowledging” the principles of the subjective value theory, questions that «hedonistic humans» acts against their interests, accepting both public spendings that do not benefit them

¹¹ In addition to Schmölders’ work in 1959, we can observe the existence of the Journal of Economic Psychology, where articles citing Puviani are not uncommon. In a 2013 article, Giulio Ferrari suggests that “Puviani’s main work (first published in 1903) represents the clearest, most comprehensive, and deepest reflection on the psychological sense of taxation” (FERRARI 2013: 477). The aspect of psychology in the hypothesised behaviour of the homo oeconomicus is also critically addressed by the political philosopher CARUSO (2012).

and taxes that diminish their resources. Ultimately, he “explains how hedonistic criteria of choice are deliberately obscured by fiscal illusions. These closely resemble the non-logical actions outlined by Pareto” (Dallera 2013: 61).

Volpi asserts that “Puviani could fully dedicate himself to the themes he loved only after 1889, when he succeeded in a competition and become an associate professor” (Volpi 1973: xxii). Da Empoli and Goetz further speculate that he wrote about fiscal illusion “perhaps due to being liberated from the constraints that an academic career may have imposed on him” (Da Empoli and Goetz 1976: 114), especially considering that during a competition at the University of Siena,¹² he “received appreciation from Messedaglia for his studies on the property tax” (Dallera 1987: 11), an argument considered more rigorous compared to his earlier essay on the bourgeois economic system” (Volpi 1973: xxi).

Furthermore, it has been observed that “Puviani is not deterred by the logical challenges of marginalism when introducing an economic theory of the State. He opposes the optimism of marginalists regarding the State while maintaining hope for its political transformation” (Dallera 1987: 104). Buchanan, in his analysis, positions Puviani’s economic thought in opposition to the perspective mainly represented by De Viti de Marco and Einaudi (Buchanan 1960: 232). Volpi, through his examination of Puviani’s works, provides valuable insights, noting that marginalist theorists “sought to apply utilitarian principles and methodological criteria of marginalism to the economic activity of the State” (Volpi 1973: xviii). He highlights that “Puviani rejected interpretations of public finance based on the assumption of shared interests among the social classes. Criticizing the marginalist theory on this point, he highlights how their solutions would be valid only if all citizens shared approximately the same economic circumstances” (*ibid.*: xxiv-xxv). Volpi concludes that, perhaps even without Puviani’s awareness, the theory of fiscal illusions hits “the vulnerabilities of marginalist public finance theories” (*ibid.*: xxxi). He refers to Pantaleoni’s publication on the *Contribution to the Theory of the Allocation of Public Spending* (1883)¹³ which assumes that the Parliament acts as a single subject with “average intelligence”,¹⁴ behaving similarly to an individual. This assumption leads to the belief that “the utility level of each individual item of spending,

¹² After winning the competition, he became professor of public finance and financial law in Perugia where he moved.

¹³ PANTALEONI (1883), reprinted in VOLPI (1975), also in MUSGRAVE and PEACOCK (1967).

¹⁴ For the subject matter at hand and also for the necessary conciseness, it’s worth noting that the debate sparked by Pantaleoni’s article at the time of its initial publication is recounted in MAGNANI (2003: 36-41).

at the same amount, [is] equal to any other; *since if this were not the case, the allocation would have been different from what it actually is*” (Pantaleoni 1883: 20. The italics are from Magnani 2003: 37). This results in a “pure retrospective rationalisation of the behaviour of the bodies responsible for budget formation” (Steve 1964: 35), justifying any budget approval by Parliament, as no illusion, whether political or financial, is acknowledged (*ibid.*: 33).

In other words, “Pantaleoni [...] does not investigate how the value system underlying budget formulation is formed (the values that should reflect collective preferences), as he believes that the application of marginalist methods to budget formulation responds to a general criterion of rationality that precludes any other consideration by the governing bodies” (De Simone 2014: 301). One can argue that Puviani’s theory of illusions complements Pantaleoni’s perspective, illustrating how the alignment between the preferences of the community and the preferences of the State is facilitated through fiscal illusions as “misconceptions about the taxes paid or to be paid and certain modalities of their use” (Puviani 1973[1903]: 8). These illusions, by allowing rulers to exploit the governed’s misconceptions about public revenue and spending, ensure the emergence and persistence of certain financial institutions: “So, the budget speaks much or little, as desired. It remains an enigmatic sphinx to the large masses of the Parliament, those masses that vote on laws, vote on spendings, vote on revenues” (Steve 1964: 155). In brief, Puviani emphasises how the entire system of the public budget depends, for its very existence, on the system of fiscal illusions. According to Parravicini, this is not a contingent event but rather an ongoing phenomenon: “fiscal illusion is a phenomenon of every historical era, as in every form of political organization or historical epoch, fiscal illusion has existed” (Parravicini 1972: 293). Thus “the dynamics of fiscal illusions accompany those of budgetary institutions and contribute to shaping them” (De Simone 2014: 302) and intertwine with those of political illusions that define the broader framework of the relationship between politics and economics: “The true state of the accounts is hidden in a recondite tabernacle, accessible only to a select few extremely knowledgeable individuals: almost always the high priests of a false democratic system [...] The limited understanding of public accounts in modern States does not, therefore, depend solely on a necessary complication of the accounting structure [...], but also on the artifices of the most eminent politicians, their personal skills, and the favourable external circumstances they face” (Puviani 1973 [1903]: 159-160).

4. THE WEAK LEGACY IN *FISCAL ILLUSION*

As is well known, Buchanan has often cited Puviani, often alongside other “Italian scholars of Public Finance (De Viti de Marco, [...], Pantaleoni, and others)” who were attentive “to conceive that much *good* or *goods* could be generated by collective or governmental action” (Buchanan 1983: 203).

In brief, Buchanan adopts the economic approach of “catallaxy” (economics as the science of exchange), which emphasises “all processes of voluntary agreement among individuals” (Buchanan 1983: 197) predicated on the existence of the *homo oeconomicus*.¹⁵ When the behaviour of the *homo oeconomicus* is driven by personal interest even in politics, it is necessary to establish institutions and/or rules which represent the framework within which people interact and the collective action takes place (Holcombe 2012). Along this line of reasoning, for Buchanan “politics is not a process of fact finding or identification of truth but rather of conflict resolution between individuals” (Sandmo 1990: 50). Following Buchanan’s thought, economic constitutionalism derives from three primary elements: economic individualism, *homo oeconomicus*, and politics as the outcome of an exchange process (Buchanan 1989). This perspective, Buchanan asserts, provides “a different way of looking at the political process, different from what emerges from the perspective of politics as power” (Buchanan 1989: 199). In this framework, politics is understood as an exchange guided by rules that facilitate the calculation of consensus, where no political or fiscal illusions should arise.

According to Da Empoli (2002), the initial diffusion of Puviani’s theory of fiscal illusion, spurred by its “rediscovery” by Buchanan (1960), did not lead to a comprehensive understanding of the theory. This gap can be attributed to the lack of systematic structure in Puviani’s (1973 [1903]) exposition. As a result, “many scholars have focused on certain aspects drawn from the numerous cases described by Puviani, without fully extracting the essential points that underpin his work” (Da Empoli 2002: 378). According to Buchanan, Puviani’s illusions only arise in a *monopolistic* State (Buchanan 1967b: 129) and are not the outcome of a democratic contractarian process of conflict resolution over resource allocation. This is a restrictive interpretation by scholars of *Public Choice* (Da Empoli 2002), limiting its functioning only to autarchies (Buchanan 1960: 24-74).

¹⁵ The concept is heavily criticised in CARUSO’s text from 2012. In the book, he writes: “any form of action – when presupposing a desocialized subject – loses all epistemological and moral value, becoming merely another form of alienation” (p. xi).

Nevertheless, the impact of Puviani's theory of fiscal illusion on Public Choice literature is undeniable, and several factors contribute to its influence. One key factor is the behavior of voters, who can be swayed by illusions produced both externally by informational constraints and internally by cognitive biases that affect their decision-making processes. Informational constraints may arise from another critical factor: the improper use of public funds. This involves politicians and/or bureaucrats deliberately creating fiscal illusions to benefit themselves or secure rents for interest groups. In Puviani's analysis, fiscal illusion is closely tied to political illusion, and Public Choice theory offers a framework to understand how interrelationships between interest groups, politicians, and voters affect public spending decisions. A fourth factor, increasingly discussed in the literature, is that of *transparency* and *accountability*. The *Public Choice* school identifies it as a factor preventing officials from acting against the public interest. It is noteworthy that the term *transparency* while not present in Puviani's work, has become, together with *accountability*, one of the leading principles of public financial management reforming framework which rests on the hypothesis that public scrutiny is unanimously related to debt/expenditure control and generally to fiscal discipline (Cangiano *et al.* 2013). In contrast, on our opinion, the idea of fiscal transparency which emerges from the reading of fiscal illusion theory is not only related to wise public spending but also to the possibility of directly verifying the exercise of the democratic right to participate in the public budget. In this sense, we may infer that Puviani's idea of budgetary responsibility drew some inspiration from Dostoyevsky's work and Machiavelli's *The Prince*¹⁶ but he moved forward, arguing that an accountable system of public expenditures and revenues stems primarily from a *substantial progress*, not necessarily linked to a *formal progress* (Puviani 1973 [1903]: 108).

CONCLUSIONS

According to Puviani, events should not be viewed merely as elements of a "past" history; rather, he contends that economic forces are the primary drivers propelling the State forward (Puviani 1973 [1903]: 32). He observes that "the explanation of the activity of the economic class in

¹⁶ "The deepest truth, emerging from Dostoevsky's immortal book, *The House of the Dead*, is this: that man grows accustomed to everything. The Constitutional Prince finds himself in different conditions in this regard from those of the Absolute Prince; he is no longer solely responsible for what the Government says and does, indeed, the responsibility lies entirely with the ministries" (PUVIANI 1973 [1903]: 94).

power leaves behind a trail of subjugated, victims, both on the economic and political fronts [thus creating discontent] because every economic constitution, in its development, determines the causes of its dissolution and transformation".¹⁷ Furthermore, it is worth noting that, according to Fasiani, Puviani's theory pertains exclusively to the finances of a monopolistic State, which, "historically, has never existed, [as none of] our three extreme cases" (Fasiani 1941: 82).¹⁸

It is undeniable that Puviani focuses on the individual striving to enhance their utility level. In a graph (Puviani 1973 [1903]: 11), he illustrates the potential alignment of an individual's "state of mind" in relation to the State. This state of mind may arise from fiscal illusions that either diminish or enhance the utility or sacrifice involved in consuming the public good or service offered.¹⁹ Regarding the positioning on the graph, the author observes that "masses of people" tend to find it more beneficial to adhere to the established political and tax order, while others perceive the State as more detrimental than beneficial.

This evaluative nature aligns with individuals' psychology, as their illusions "can vary between being pleasant and optimistic or painful and pessimistic" (Puviani 1973 [1903]: 17). People's positioning in the graph varies in relationship to the distribution of benefit and public burdens as well as according to different factors like intellect, wealth and social status (*ibid.*: 12). Hence, even in the Cooperative State, a democratic ideal towards which society should strive, fiscal (and political) illusions may persist. Puviani attributes this possibility to the potential disparity between formal and substantive democracy, suggesting that non-equivalence means a "democracy that doesn't exist" (Ginsborg 2006).²⁰ Furthermore, cognitive distortions in fiscal psychology can contribute to these illusions.²¹ Regarding democracy itself, we can also think that the illusion, for obvious

¹⁷ *Ibid.*: 32. Some argue that Puviani identifies a 'disparity between social classes due to the concentration of wealth in the bourgeoisie' as noted by FARINA (2009: 169-184).

¹⁸ Three extreme cases, because in addition to the Monopolistic one and the Cooperative one by Antonio De Viti de Marco, he adds his hypothesis of a Modern or Tutorial State, as we have already written in note 7.

¹⁹ Puviani does not appear entirely unaware of the "consolidation" of public needs, although nothing is known about his possible acquaintance with Mazzola's work on public goods. However, with regard to financial illusions, Lindahl's praise is evident. See DALLERA (1987: 17).

²⁰ He refers to DAHL (1985), who argues that "if democracy has the legitimacy to govern the State, it must also have the legitimacy to govern economic enterprises. To claim otherwise implies that it lacks the legitimacy to govern the State" (*ibid.*: 111).

²¹ As already mentioned in footnote 4, the importance of fiscal psychology, to which much of financial illusion theory pays attention, was well evidenced by Schmolders in 1959.

reasons ignored by the deluded, also depends on the means to realize “fiscal craftiness” (Puviani 1973[1903]: 234). Puviani illustrates this point by highlighting the role of the press²² as the “mass” communication tool par excellence of his time, a troublesome role which has much weakness still today. Fiscal democracy, far from being an achieved goal, represents a challenging objective in the functioning of modern budgetary process. In this sense we can still appreciate the modernity of Puviani’s reflections: “In the political realm in general, as in finance in particular, there is a strange play of lights and shadows, concealing the truth. What is no longer seen for what it is, and what is seen is not, vain appearances take shape, and true things take on the appearance of disappearing shadows” (*ibid.*: 17).

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²² “The press is indeed driven to defend the same interests that prevail in the voting chambers. Firstly, because it typically receives substantial subsidies from major active parties; secondly, because the newspaper increasingly becomes a business accessible only to large capital; thirdly, because it increasingly becomes an organ defending causes for payment, often representing the interests of the wealthiest, regardless of the intrinsic value of the subject under discussion (such as paid campaigns in favour of multiple banks, private railway operation, premiums for shipping companies, colonial enterprises, bimetallism, etc.). Not to mention the incompetence that usually characterizes journalists and their inability, due to the periodic nature of their work, to conduct thorough studies. Above all, it is their partisan and capitalist-speculative nature that should be highlighted when attempting to impartially assess the role of the press in public affairs in our time” (PUVIANI 1903[1973]: 105).

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