

SCATTERED REMARKS ON PROFESSOR BUTTIGLIONE'S PAPER

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Buttiglione's paper is rich and dense. I am in fundamental agreement with his main theses and his argumentative approach. So I will limit myself to reformulating his argument from a somewhat different perspective, that of civil economy. On the other hand, I will skip those few minor points which are debatable. (E.g. there are cases where a tax on wealth is legitimate, contrary to what the author seems to believe. To give another example: I do not understand why the A. does not consider the possibility of deliberative democracy as a viable way to answer his question: "who must be represented in representation?" Again, why the A. does not consider bridging social capital as a prerequisite of democracy? Thucydides reports a famous speech by Pericles, where it is said that democracy cannot function properly when the constituency includes too many *idiotes*).

Three different models of regulation are possible in a market society: the free market, the government, governance. The first one is based on the principle of competition among a certain number of actors and its ultimate end is to achieve efficiency in the allocation of resources. In the government model, decisions are enforced on the basis of the principle of authority and its fundamental value is fairness, or, better, justice as fairness in Rawls' sense. The model of governance, on the other hand, is based on the principle of cooperation (hence of partnership) and its guiding value is reciprocity (not to be confused with exchange of equivalents).

The three policy-making models rely upon three different instruments for their functioning: the price mechanism; hierarchy; the negotiation procedures, respectively. Governance refers to the non-hierarchical model of governing characterized by the involvement of non-state actors in the formulation, decision-making and implementation of public policies. In synthesis, governance is the model that tends to activate the principle of *circular* subsidiarity (not to be confused either with vertical or with horizontal subsidiarity).

It is important to stress that the governance model of regulation is not to be identified with the non-profit or third-sector, although these organizations are a major factor for its implementation. Moreover, the governance model can be applied to regulate relationship both within the public sector

(such as those among the various national and international institutions) and within the private sector (as in the case of corporate governance).

In the knowledge society – i.e. the type of society we live in today – governance is becoming more and more important since specialization and interdependence are key characteristics of the various actors. Clearly, governance is more relevant in some cases than in others or in some specific type of relations than in others. E.g. the free market model is certainly inappropriate in a modern knowledge society, since asymmetric information prevails and *tacit* knowledge can hardly circulate in conventional markets. In these areas, one needs organizations capable of enhancing reciprocal trust, sense of identity and the development of shared values.

The governance model goes beyond (not against) the free market model and it corresponds to a new phase of development of our societies, where the concept of innovation is more important than that of price mechanism and wage flexibility and where the notion of integration of the actions of the various actors appears more crucial than that of further promoting the already high *positional* competition in national and international contexts. Governance aims, instead, at *cooperative* competition.

A specific area where the governance model proves to be of strategic relevance is that of the tax system. How to design a desirable tax system? To answer, let's consider the five elements characterizing an optimal tax system: 1) efficiency (taxation should not be distortionary); 2) political responsibility (changes in taxes should come about as a result of legislated changes); 3) administrative simplicity (the cost of extracting taxes should not be so high as to favour evasion or corruption); 4) flexibility (the tax system should be countercyclical and not procyclical); 5) fairness (both horizontal and vertical).

We face here a sort of Arrowian impossibility theorem: it is impossible to design a tax system such that *all* five conditions are *simultaneously* met. This is an occasion when the governance model becomes truly relevant. Properly interpreted and rationally applied, it can generate a consensus about the tax system to be enforced, a consensus not warranted either by the government or by the free market model.

As Buttiglione correctly points out, we have to strive in order create fiscal coordination among the States as well as a General Agreement on Wages and Labour (GAWL). That is why we have to put to work the three models of regulation, finding correspondence rules that allow strategic complementarities among the three, thinking of a triangle whose vertexes denote the three models.