The Challenge of the History of Public Economics

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The history of public economics is a challenging subject. There is no simple narrative which can accommodate the joint evolution of economics and theories of the public economy. Taken together, the papers published in this issue provide ample evidence against that idea that progress in the understanding of public economics has been linear — that the application of ever more sophisticated economic theory has been the motor of scientific progress in this domain. While this might seem at first sight a plausible view, it fails to capture important features of the advances, breakthroughs and vicissitudes in the theories and models related to the public sector.

To be sure, the above-mentioned logic of progress *does* capture important aspects of the development of modern public economics. Consider for example the impact of the development of pure formal theory in a general equilibrium setting (cf. Florenzano's paper on the evolution of public economics after the 1950s and the passages in Adaman and Madra dealing with the impact of the economics of the Cowles Commission); or consider certain sub-sets of the characteristic problem areas of public finance such as tax incidence or public debt. For obvious reasons, advances in areas such as these depend quite directly on general insights into the economic interdependencies of market economies. For these sub-sets of problem areas in public finance, models of general economics are indeed "applied" to specific pertinent questions. Nonetheless, the overall history of public economics is far more complex. Two important symptoms of this complexity are evident in many contributions to this issue.

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The first of these is that in the development of public economics foundational and conceptual issues matter, even for more recent developments. Such developments are not solely driven by advances in the sophistication of technical tools and modelling. Nearly all of the major texts from the 1950s and 1960s — when modern international public economics emerged — reveal an awareness of the importance of conceptual issues: “Progress must come from a widening of the conceptions of government behaviour from which the study begins, rather than from further analysis of logically clear but practically barren “welfare” situations”, as Peacock and Wiseman programmatically state in a 1956 paper first published in the present volume. Examples include basic issues of Samuelsonian public good theory (provoking the aforementioned contribution by Peacock and Wiseman), foundational discussions regarding the *Coase (1960) theorem* (important in Bertrand’s contribution), and the Virginia School of *Public Choice* with its Neo-Hobbesian and contractarian thrust, popularizing models of politics “as if it were market exchange”. Adaman and Madra and also Florenzano discuss the impact of these and related developments, outlining a specific agenda and providing a foundational frame for modelling the public sector. They address the background and the far-reaching impact of the status of conceptions such as *decentralization*, and assumptions such as *ubiquitous opportunism* in the development of diverse strands of literature, including mechanism design and public choice. Developments within *Arrowian Axiomatic Social Choice Theory* and the ensuing critical discussion of the problems and implications of normative principles such as utilitarianism, welfarism, Rawls’s Maximin-rule, and of New Welfare Economics provide further evidence for the foundational normative connotations of core areas of modern public economics. Baujard and Dobuzinskis explicitly introduce conceptualizations developed in the context of modern normative economics (notably the concept of “welfarism” coined by Amartya Sen) to place 19th century contributions in perspective. In addition, discussions of the *status of externalities* (Lagueux on the “residual character of externalities”) and *merit goods* (Ege and Igersheim) indicate the importance of *conceptual* and *methodological* foundations for key issues in public economics in general, and the role of normative economics in particular. Further examples of the importance of conceptual issues and the interdisciplinary dimension include “the role of coercion in society” (also addressed in Peacock and Wiseman 1956) and the economics of (semi-)public institutions and mechanisms beyond the state. The latter include the economics of common property institutions with Elinor Ostrom as a major contributor, as well as the economics of charities discussed by Rutherford in this issue.

A second important aspect of the development of public economics is late internationalization. While the interaction between the various strands of neo-classical economic theory after the marginalist revolution contributed to the dynamism of the new paradigm, the large-scale internationalization of predominantly Anglo-Saxon public economics took off only after WWII. As has been repeatedly pointed out, Anglo-Saxon public economics, including the author of the most comprehensive conceptual framework of public finance and market failure on the basis of Marshallian economics (Pigou 1932), almost completely overlooked relevant contributions by continental European authors.[1] In particular, early marginalist contributions to public economics by Austrian, Italian and Swedish authors remained largely neglected. Wicksell (1896) — the importance of whose general contributions to economic argument was relatively familiar in the Anglo-Saxon world — is no exception. As Musgrave and Peacock (1958: vii) put it, the neglect of continental theory "has meant that Anglo-Saxon economics has suffered in consequence". As for French authors, many of them have been rediscovered only very recently, in spite of the relevance of the themes they discussed and the ideas they advance (see the contributions by Dobuzinskis, Faccarello, Kolm, Orain, Poinsot, Sigot, Silvant). More generally, it is fair to say that while important developments in continental public economics *have* been recognized and employed from the 1950s onward by authors such as William Baumol, James Buchanan, Mancur Olson, Alan Peacock, and Paul Samuelson (aided by the work of *émigrés* such as Richard Musgrave), interesting aspects, episodes, and authors within and beyond these developments have until recently been largely neglected.

There is a straightforward *prima facie* explanation for the late internationalization of public economics: the nation-specific institutional features embedding public budgetary processes tend to make the shadow of the past huge and dense. But this explanation does not capture the whole story. It treats public finance as a technical discipline, focused on public sector accounts and technical issues regarding public budgetary processes, along the lines of the German *Kameralistik*. This view of public finance is excessively narrow. On the one hand, developments in some of the core elements of public economics (e.g. tax incidence) straightforwardly render them integral to economics. Any adequate analysis of taxation and public debt clearly must be based on the general economic analysis of market interdependency. On the other hand, a narrowly technical view of public finance is

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[1] For early contributions related to the import of this Continental theories, see Buchanan, 1952, Baumol, 1965, Musgrave and Peacock, 1958, Musgrave 1959, and Olson 1965.

unsatisfactory for quite different reasons, to which Schumpeter here alludes: "Public finance is never a special area … but … always the summary of all social, political, cultural, economic, and external relations and conditions of a nation" (1926-27, 827). Put another way, public finance should *not* be treated as a collection of technical tools to be handled by bureaucratic subordinates: this kind of public finance is "the most boring subject on earth" and *Referentenstümperei*, as Schumpeter puts it. Moreover, Schumpeter's emphasis on the scope of the interdependencies in which typical public finance issues become involved implies that public finance is *not* simply a *sub-discipline of applied economics*. Only a version of public finance which entirely ignored the explanation and justification of public expenditures, the logic of political mechanisms of collective choice, and the evolution of the public sector within the dynamics of modern market economies could be thought of as a sub-discipline in this sense.

The core issues of public finance as envisaged by Schumpeter cannot be dealt with merely by applying theories, methods, and models provided by general economic theory. These issues (i) sometimes require *autonomous conceptual development,* as exemplified by concepts such as public goods or merit goods; they (ii) sometimes entail an *immediate relationship to foundational issues* regarding the problems of a science aiming at both light and fruit — as exemplified by Peacock's paper (1954, also first published in this issue) on public finance —, positive theory, and welfare economics; and they (iii) sometimes prompt and demand *interaction with other disciplines*. This notably includes positive *political* theory (public choice can be seen as a specific strand of it) and fiscal sociology (emphatically endorsed by eminent economists such as Pareto and Schumpeter). In sum, all of this emerges in the early version of the famous *displacement effect* hypothesis — mentioned in the Peacock and Wiseman 1956 paper — which is here given as a simple illustration of the limits of a *general economic theory* of public expenditure, emphasizing the importance of history, context and "attitudes" more commonly the object of work in political science and sociology. The interdisciplinary horizon should also include political philosophy. Here one can think of issues such as social choice (exemplified by Guidi's paper); or tax justice and property rights, which regained prominence in the wake of Coase (1960), but which have a long tradition including various 19th century strands of public economics influenced by natural law thought (see for example Corrado and Solari's contribution on the natural law foundation of A. Wagner's theoretical work).

Given the range of possible sources of influence for theoretical development, the impact of specific institutional traditions is only one amongst several factors contributing to the late homogenization and internationalization of public economics. Some of the reasons for the persistence of (seemingly "national") specificities are more deep-rooted, since they may well be the outcome of differences of theoretical architecture not necessarily dependent on institutional traditions. Indeed, contributions to the present issue and relating to *national traditions* are not primarily of interest as a series of episodes from the pre-history of a modern consolidated theory of public economics. In some of those contributions institutional settings and problems play a leading role (e.g. Bini and Parisi on Italian municipalization), whereas in others the impact of tradition and debate is more important. This last can be related to (i) a broad understanding of the role and function the state including the scope of its historical tasks in the era under consideration (for example, mere administration vs. national development vs. nation building[2]); or (ii) basic issues in political philosophy and methodology.

This applies to Fossati's paper on the *idea of the state in the Italian tradition,* but in particular to contributions covering 19th century French theory. Foundational issues loom large here, including specific controversies such as *utilitarianism vs. natural right doctrines.* The latter come to the fore in discussions by Sigot, Poinsot and Dobuzinskis. Kolm provides a more general panorama showing the role of French engineer economists within a public sector framed by an understanding of statehood grown over centuries, along with more recent individualistic aspirations of enlightenment rationalism setting the agenda for the normative side of the issues — while Faccarello stresses the diversity of some alternative approaches and proposals whose main thrust is positive, even though they are related to normative issues in interesting and diverse ways. McLure's comparison between Pareto and Pigou also highlights foundational differences connoting different *methodological* stances, along with different visions regarding the architecture of normative economics — nation-specific framing effects (the Italian vs. the British context) playing no clear-cut role in this context. As mentioned by McLure, Pareto believed that fiscal sociology has an important role to play regarding the analysis of the working of the public sector and was highly critical of an important tradition of *Italian public finance* that (along with German language marginalism)

[2] The public sectors of "late nation states" were sought to master co-ordination problems and corresponding major issues of institutional design. By contrast, Pigou (e.g. 1935) explicitly *assumes* reasonably well-ordered public institutions and organisations, providing the background for conceptions related to piecemeal incremental reform in order to eliminate the *residual inefficiencies diagnosed as externalities*, as discussed in Lagueux's paper.

pioneered a marginal-utility approach to public good provision and public sector decision processes (for a summary of Italian public expenditure theory see Fausto's article).

Taken together, the diversity of foundational influences contributing to the late homogenization and internationalization of public economics, as well as to its evolution in the second part of the 20th century, suggests that the history of public economics is a promising resource for contemporary research (an issue taken up in Peacock's contribution written for this volume). The contributions to this volume dealing with the later 20th century (as well as the writings from this period referred to in footnote 1) show that the process in which predominantly Anglo-Saxon public economics absorbed other (notably "Continental") influences was conditioned by the prevailing state of discussion as well as developments within and beyond the profession. The history of public economics may facilitate a re-thinking of the potential role of fundamental concepts in new combinations or in a modified theoretical setting, as currently seems to be happening in the case of merit goods (whose potential in respect of normative economics is discussed by Ege and Igersheim) in the wake of the boom in behavioural economics.

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