Public Choice **61**: 289–291, 1989.

Review article

Richard Musgrave, public finance, and public choice*

JAMES M. BUCHANAN
Center for Study of Public Choice, George Mason University, Fairfax, VA 22030

The two volumes under review allow us to look at the half-century's scholarship of the leading public finance economist of that half-century. The papers included are well organized into major categories, even if not precisely those indicated in the volumes' titles, and, within each category, the selections are arranged chronologically. Volume One is prefaced by a teasingly short autobiographical eassay, which is supplemented, in part, by Chapter 8 which is the lecture delivered on the occasion of an honorary degree at Heidelberg (1983), Musgrave's first academic home.

The first paper in Volume One is, appropriately, Richard Musgrave's first publication in a major journal, his 1939 evaluation of the voluntary exchange theory of the public economy. As surprising as it may seem, this paper represented the very first introduction of the extensive, and productive, European scholarship in public finance theory to English-language readers. And it was this European scholarship that provided the foundations both for the formalization of normative public finance by Paul Samuelson and the somewhat later emergence of public choice, as an independent subdiscipline.

The second paper in Volume One is an early introduction of Musgrave's tripartite budgetary classification, a taxonomy that he successfully imposed on public finance economics through the publication of his 1959 treatise, *Theory of Public Finance*. In retrospect, it is, I think, fair to say that public finance was in intellectual disarray in the early 1950s. Marshallian incidence theory along with Pigovian-Edgeworthian utilitarian normative principles of taxation had characterized pre-World War II English-language public finance. This structure had already been shocked by the Robbins critique of utilitarianism, by Keynesian fiscal policy, and by Samuelson's formal theory of public expenditure emerging from theoretical welfare economics. Richard Musgrave, almost alone, was able to re-establish intellectual order through his treatise, a book that was, almost literally, waiting to be written. His three-part breakdown of the budget allowed economists to separate conceptually the allocative function of the public economy, to which the norms of theoretical welfare economics could be applied, from the transfer or redistributive function, to which utilitarian or other social welfare function apparatus might be extended

* Richard A. Musgrave, *Public finance in a democratic society,* Volume One: *Social goods, taxation, and fiscal policy*; Volume Two: *Fiscal doctrine, growth, and institutions* (New York: New York University Press, 1986). xiii + 391 pages, and 400 pages.

(whether successfully or not), and from the stabilization function emergent from post-Keynesian usage of the budget as an instrument for aggregative control. This structural framework for analysis allowed specialist researchers in the three separate branches to proceed more or less independently, one from the other.

As Musgrave has always acknowledged, then and now, the three-part classification is a conceptual rather than an operational tool for analysis. Even as a normative exercise, there is relatively little assistance provided in integrating the three functions into some final budgetary adjustment. And, as a predictive theory of how budgets are, in fact, actually made in any democratic structure of governance, the conceptual framework may confuse rather than enlighten unless it is very carefully introduced.

The second and third parts of Volume One contain papers on taxation and fiscal policy. The first part of Volume Two covers fiscal federalism; other parts of this volume include papers on social security, development finance, government growth, and, finally, Musgrave's generalized overview of public economics. There are, in total, twenty nine papers in Volume One and twenty-three papers in Volume Two.

I shall not attempt to evaluate Musgrave's contribution from the perspective of a modern public finance economist. I am neither competent to do so nor interested in making such an effort. I suspect that Musgrave would agree with my assessment that there have been technical advances and conceptual retrogressions. My evaluation here is explicitly constrained by the location for publication of this review and by its potential readership. I shall try to examine Richard Musgrave's contribution from the limited perspective of a public choice analyst.

Given the combination of cultural and educational heritage, language comprehension, normative interests, and research concentration, Musgrave might have been expected to be highly sympathetic to public choice efforts to analyze public-sector decision structures. He maintains a life-long interest in what is sometimes called 'fiscal sociology,' and he has never been entranced by either the intricacies of mathematical economics or the scientism of the empiricists. His position toward public choice has been what I should call sympathetically critical (less well defined than a more familiar love-hate relationship). I should place Musgrave neither among the ranks of the adversaries of public choice nor among those whose interests dictate inattention and neglect.

I share with Musgrave the frustration at the efforts of many of our peers in economics when they make too much of the positive-normative distinction in our inquiry. The way that we look at, or model, the complexities of social interaction depends upon our ultimate normative ideals, and, in turn, these ideals, themselves are shaped, in part, by the way we look at the interaction process. Musgrave's central and continuing criticism of public choice theory rests squarely in his residual unwillingness to model 'public choosers' analogously to the way that we model 'private choosers.' He suggests that, descriptively, persons who make decisions as political agents do not always act in furtherance of their own interests. Of course he is correct, but the difference lies, not in an interpretation of the empirical behavioral reality, but in the appropriateness or inappropriateness of introducing an abstract model that facilitates explanation and understanding. Musgrave considers many of us who work with interest models of political behavior to be motivated by normative precepts that he does not share. We may, I think, acknowledge that he is at least partially on target, but, at the same time, we should expect Musgrave to acknowledge, in turn, that our norms, at least at the instrumental level, are shaped by our visions of social reality, which have some empirical grounding. There is room in an inclusively-defined 'political economy' for both the insider-Harvard-Musgrave vision of socio-political reality and the outsider-Chicago-Virginia-public choice vision.

A second strand of Musgrave's criticism of public choice is not so readily accommodated. Like many of his academic peers who emerge directly from the European rather than the American tradition, Musgrave has never understood or appreciated the relevance and importance of the constitutional structure of a polity, with the categorical separation between rules of constitutional order and behavior that takes place within such rules. This failure to appreciate the whole constitutional exercise provides yet another basis for criticism of the seemingly cynical models of in-rule political behavior, a criticism that is developed at some length in a long paper 'Leviathan Cometh – Or Does He?' in Volume Two. This paper is explicitly directed at the revenue-maximizing models of government introduced in a book, *The Power to Tax* (1980), that Geoffrey Brennan and I had previously published. This Musgrave criticism along with others of a similar nature prompted Brennan and me to write a second book, *The Reason of Rules* (1985), in which we tried to defend the whole constitutionalist enterprise.

The contrast between the Musgrave and the constitutionalist perspective can be sharply defined. If political agents act in furtherance of some 'public interest,' and agree on what this is, then constitutional constraints on their behavior are both unnecessary and unproductive. If political agents act in their own identifiable interests to exploit any opportunities that their authority offers, constitutional constraints are essential to insure the functioning of any political order. The abstract models yield categorically differing implications for political structure. The choice between the alternatives depends both on an assessment of empirical reality and on estimates of political opportunity gain and loss functions.

The fact that these two volumes span a half-century of productive scholarship by an economist who has always been contemporary is worth re-emphasis. The enthusiasm of the bliss years of Keynesian economic policy is conveyed in several of the early papers. But the public finance theory of the 1959 treatise was sufficiently encompassing to allow stabilization policy to move out of the central role initially assigned, while transfer and allocative policy shifted to more important status. The long paper that concludes Volume Two offers Musgrave's own history of the developments in fiscal doctrine over the half century.

The public finance of Richard Musgrave emerged more or less in parallel with public choice. As I have noted, Musgrave has been sympathetically critical of the public choice enterprise. If his peers among the academic stars, defined in terms of age, location, and influence, should have been equally attentive, many issues could have been more thoroughly discussed. As things stand, the inclusively-defined political economy that might embody contributions from scholars with alternative visions remains to be developed.