

Teaching Public Economics with Special Reference to Australian and US Cultures

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Abstract

This paper discusses how teaching public economics is, and should be, related to national cultures. The paper shows how the US culture of distrust of government influences the two major US texts (Rosen and Gayer 10E, and Gruber 5E) that dominate the teaching of public economics in Australia and elsewhere. By contrast, Stiglitz's texts on public economics emphasize the role of government in providing social welfare. These traditions may be described as neo-liberal and social democratic respectively. The paper concludes that the social democratic approach reflects Australian culture and is more appropriate for teaching public economics in Australian universities.

"Analytic work begins with material provided by our vision of things, and this vision is ideological almost by definition." Joseph Schumpeter, 1954, *History of Economic Analysis*

"The object of government in peace and in war is not the glory of rulers or of races, but the happiness of the common man". William Beveridge, 1942, *Social Insurance and Allied Services (The Beveridge Report)*

"From birth to death, our lives are affected in countless ways by the activities of government."

Joseph Stiglitz and Jay Rosengard, 2014 *Economics of the Public Sector*

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1 Introduction

Does, or should, economic theory vary across different countries? More modestly, should the weight given to different issues in economics vary across countries? If so, to what extent should this reflect different national cultures or institutions? Importantly, what are the implications for teaching economics in our (Australian) universities?

These are large, and indeed daunting, questions, which is perhaps why they appear to be rarely discussed. But, if there are significant cultural or political differences between countries, these questions surely deserve attention. They are of special interest in the teaching of public economics which deals with the fundamental issue of the role of government in the economy and the provision of social welfare (the welfare state).

This issue is of special interest in Australia. The teaching of public economics (or public finance) in Australian universities, as in many other countries, draws heavily on two US texts: Rosen and Gayer (2014) and Gruber (2016).¹ The former text is in its 10th edition; the latter in its 5th edition. In this paper we will see that both texts reflect US culture, assume a relatively limited role for government and predominantly discuss government in the United States (US). On the other hand, in our universities there are few references to the Stiglitz and Rosengard text (4E, 2015) which, though the authors are US based, assumes a more active role for government and is more international in outlook.^{2,3}

However, Australian and US cultures are very different. As Hancock (1961, p. 67) observed in his classic study, *Australia* (1930), Australians have generally looked on government to provide social justice and ‘to soften’ market forces in the form of international prices or to “elude them or master them”. In 1984, the US Brookings Institute concluded its major review of the Australian economy with the observation that “Australia’s public policies are greatly influenced by the *national mistrust of market outcomes and a strong belief in equality*” (Caves and Krause, 1984, p. 400, my italics). While trust in government has almost certainly fallen in this century, there remains in Australia a widespread view that government should provide social justice and welfare. This view is often described as a “social democratic” one and I adopt this term in this paper.

Conversely, the dominant culture in the US may be described as in the “neo-liberal” tradition: a trust in markets, a low weight on equity and distrust of government. As Samuel Huntington (1968) observed: “When an American thinks about the problem of government building, he directs himself not to the creation of authority and the direction of power, but rather to the limitation of authority and the division of power.”⁴ The US nation arose from revolution against British monarchical authority and in the words of Fukuyama (2015, p. 488, my italics) , “*intense distrust of government* and reliance on the spontaneous activities of dispersed individuals has been a hallmark of American politics ever since”. The Civil War in the mid-nineteenth century deepened this distrust. As Nobel prize winning economist Professor James Buchanan observed (Buchanan and Musgrave, 1999, p.15), for his family, who hailed from a long line of deeply independent Scots-Irish immigrants to Tennessee (in the US south) and who recalled bitterly defeat in the Civil War, there could be “no sense of membership in a genuine national community”.

In this paper, I will contend that Rosen and Gayer (2014) and Gruber (2016) present an essentially neo-liberal view of the role of government which differs in many ways from the social democratic tradition in Australia. Doubtless this may also be true for many other countries, but this is beyond the scope of this paper.

Two other introductory observations may be made that may affect how public economics is taught. First, Australian universities are increasingly recruiting economists born and trained overseas, especially in the US, who have little familiarity (at least when they arrive) with Australian culture and government. Of 115 economists teaching at Sydney University or the University of New South Wales in mid-2018, 60 per cent held Ph.Ds from US universities, 29 per cent held Ph.Ds from other international universities and only 11 per cent obtained Ph.Ds from Australian universities.⁵ Second, an increasing proportion of students in Australian universities are overseas students, mainly from East Asia. They may have no special reason to be interested in Australian or US issues. Thus, in presenting public economics in Australia, we often need an international view of public economics as well as an Australian one.

This paper takes up these issues. Section 2 discusses the nature and content of the subject “public economics”. Section 3 expands on the nature of Australian culture and government and discusses implications for teaching public economics in Australia. In Section 4, we describe the very different features of US culture and economy. Section 5 discusses how these cultural features apparently influence the exposition of public economics in the two major US texts (Rosen and Gayer, and Gruber). Section 6 highlights some key features of the Stiglitz and Rosengard (2015) text which, the paper argues, are more relevant to Australia. The paper concludes that the substantial cultural differences between Australia and the US should be reflected in the way that public economics is presented in Australia. An annex provides supporting metrics.

2 Nature and Content of Public Economics

In the introduction, I described the study of public economics as the study of the role of government in the economy and the provision of social welfare. This is consistent with the broad definition of public economics in the *Oxford Dictionary of Economics* (Black et al., 2012) as a field of economics “that studies economic efficiency, distribution and economic policy. In particular, it deals with the analysis of the public sector and its interaction with the economy, responses to market failure in the presence of externalities, public goods, taxation, social security systems etc.”

As the European authors Hindriks and Myles (s, 2006, p.3) note, public economics has a long (European) tradition. “It developed out of the political economy of John Stuart Mill and David Ricardo, through the public finance tradition of tax analysis into public economics and has now returned to its roots with the development of the new political economy... Public economics is the study of economic efficiency, distribution and government economic policy...Public economics has developed from its initial narrow focus upon the collection and spending of government revenues, to its present concern with every aspect of government interaction with the economy.”

We should note, however, that public economics to-day does not usually include the macroeconomic role of government.⁶ In *Lectures in Public Economics*, Atkinson and Stiglitz (1980, pp.3-4) stated that they were “concerned with the economics of the public sector” but would not “cover stabilisation or macroeconomic policy” as “the economics of publishing had changed” since Musgrave (1959) devoted over 200 pages of *The Theory of Public Finance* to stabilisation policy.

In the introduction to their recent edition, Atkinson and Stiglitz (2015, p.xi) reiterated that the subject is fundamentally about government policy and not “a specialist treatise in public finance”. And they added that “It was — and remains — our view that all professional economists should understand the grammar of arguments about policy”. And, as Atkinson and Stiglitz (*ibid.*, pp. xi–xxii) observed, today the modern topics of globalisation, behavioural public economics, imperfect information, the role of income distribution in the economy and the behaviour of the state (political economy) are also integral parts of modern public economics.

It should be noted here that public finance (mainly public expenditure and taxation) may be treated as a separate sub-set of public economics. However, the two titles (public finance and public economics) are often treated as synonymous. As we see below, Gruber explicitly equates public finance with public economics. And although the title of Rosen and Gayer’s text is *Public Finance*, the authors discuss market failures and political economy at some length (which are public economics subjects) and their text is often referenced in public economics courses.

So, what subject matter should be included in the general subject of public economics? The following would, I believe, be commonly agreed.⁷

1. The fundamental economic and social functions of government and an introduction to the rule of law, the nature of the public sector and government budgets.
2. The fundamentals of welfare economics, competitive market efficiency, market failures and the relationship between markets and distributional / equity outcomes. The core elements of public policy – the nature of individual preferences, social welfare and cost-benefit analysis.
3. The core elements of public choice – the principles of deriving collective (public) decisions from individual values and the making of public decisions in practice.
4. Provision of economic services – providing public goods, dealing with externalities, competition policy and industry regulation. This may include discussions of public ownership and pricing and provision of education.
5. Provision of social welfare – the issues including social (equity) objectives, social welfare policies and programs, including market regulation and provision of health services.
6. The principles of public finance, incidence and efficiency of taxation, optimal taxation and tax reform, government borrowing and debt.
7. Taxation in practice, including taxation of personal income, consumption and wealth and corporate taxation.
8. Multi-government systems, domestic multi-level government, globalisation and international government.

It should be acknowledged here that, while a single textbook can encompass all these topics, it is difficult to cover all of them in a one semester course. Ideally a combined approach across university courses, especially microeconomic, public economics and public policy courses, would ensure that the full spectrum of the subject matter is covered systematically. This is a significant challenge in the siloed course culture of much university teaching.

Critically, the study of public economics is both positive and normative. The positive part is the study of how government affects the economy. The normative part is the study of how government ought to affect the economy or, more broadly, our society. In the preface to *The Economics of Welfare*, Arthur Pigou (1920) observed that: ‘The complicated analyses which economists endeavour to carry through are not mere gymnastic. They are instruments for the betterment of life.’ As I remarked in the Preface to Abelson (2012): “This view motivates many of us who work in the field of public economics. Our fundamental goal in studying public economics is to understand both how the arrangement of economic affairs in a country, whether by markets or by government, affect the welfare of individuals that make up society and how these arrangements can be improved.” This understanding must be developed in a cultural and political context. We now turn to these issues.

3 Australian Culture and Economy

In Australia, the government has long played a major role in both economic development and provision of social welfare. In the 19th century, the government was mainly instrumental in developing energy, transport and communications infrastructure across the continent. Following national federation of the separate states in 1901, government regulations increased. Government adopted a high-tariff protectionist stance along with an industrial welfare policy designed to ensure payment of adequate wages. In 1904, the Government set up the Commonwealth Court of Conciliation and Arbitration to arbitrate on industrial disputes. Famously, in 1907 in the Harvester judgement, Justice Higgins laid down that the basic wage should be able to provide for the basic needs of a family of five. The government also introduced several welfare policies, including age pensions, workers’ compensation for injury and some unemployment relief.

After the Second World War, the role of government expanded further. The 1945 White Paper committed the Commonwealth government to guarantee full employment and to intervene as necessary to achieve that guarantee. In the 1950s, government introduced import controls to respond to balance of payments difficulties and to maintain employment. It also provided subsidies to many import-competing manufacturing businesses. The 1972—75 Labor government expanded the role of government by greatly increasing public expenditure, especially in public health and education, and protection of the environment. Francis Castles (1985) described the balance of markets and government as the “Workers Welfare State”. Despite advocating smaller government, subsequent Liberal governments (1975-83; 1996-2007 and 2013 to present time of writing) have largely maintained public expenditure in relation to GDP.

However, since the mid-1980s there has been substantial bi-partisan liberalisation of the economy. The Hawke-Keating Labour governments (1983-96) liberalised capital markets by floating the Australian dollar, lifting controls over foreign exchange transactions and deregulating the domestic banking sector. Effective tariffs have been reduced from 35 per cent in the 1970s to 5 per cent today. Many public enterprises have been privatised. Today, both major political parties are committed to market competition. Consequently, Australia is a much more open economy in terms of trade and migration in 2018 than it was in the 1930's or even the 1960's.

So, what is the role of government to-day in Australia? Drawing on Coleman (2016, Chapter 1), the following major features of Australian culture and economy all involve government in some way.

1. A tightly regulated labour market, with minimum wage and other wage awards determined by industrial tribunals, along with awards covering sickness and long-service leave determined by the Fair Works Commission, strongly complements social welfare expenditure (see also Lewis, 2016).
2. A tax-transfer system heavily reliant on direct taxation and means testing. Australia has the most targeted welfare system in OECD countries funded through the federal budget.
3. A very strong commitment to federal funding of state public services to ensure equality of services across the country. Gramlich (1984, p.231) described this as "the most equalising federalist system in the world", but also drew attention to some consequential inefficiencies with bureaucratic controls over resource allocation. .
4. High standings for senior bureaucrats complemented by many independent statutory bodies.

The highly targeted welfare system (point 2) explains why, notwithstanding strong welfare policies, at around 36% of GDP, Australian public expenditure is one of the lowest in the OECD countries. As Stewart and Whiteford (2018, pp. 327-8) explain, in Europe, the US and Japan, social security is financed by contributions from employers and employees, with benefits related to past earnings. In Australia, benefits are financed from general revenue and strongly income tested. In Australia the poorest 20 per cent of the population receives nearly 42 per cent of all social security spending, the richest 20 per cent receives around 3 per cent. Thus, "in Australia, the poorest fifth receives twelve times as much in benefits as the richest fifth. In the US, the poorest get about one and a half times as much as the richest." And in many European countries, top quintile households "claw back" in social security payments a significant part of their tax contributions.

Other significant features of the Australian polity include: strong government support for equity resourcing of education, unemployment benefits that do not require previous employment history, an independent public broadcasting corporation, a substantial compulsory private retirement savings scheme (which also reduces public spending), and corporate tax dividend imputation. Moreover, many markets remain quite strongly regulated. Several independent agencies oversee competition policy and set prices for major (energy, transport and water) utilities.

As Caves and Krause (1984, p.2) observed, “Australia’s endorsement of egalitarianism has deep historical roots” and they noted that “Australians prefer government determined outcomes, in many cases, to market solutions even if efficiency is sacrificed”. Thirty-five years on, views of government are almost certainly more critical to-day. But, given the evidence cited above, government in Australia remains in the social democratic tradition — a fundamental instrument of social welfare, although not without compromises and flaws.⁸

4 US Political Culture and Economy

Turning to the United States, anyone who googles “American Exceptionalism” will find an array of conflicting views on whether or not the US is “exceptional” and how and why. In this paper I take a short-cut and draw heavily on the authoritative 600-page review of *Political Order and Political Decay* by Francis Fukuyama (2015), which includes substantial material on the US. While some experts may disagree on some points, I believe that Fukuyama’s central propositions about the US have wide acceptance. They are certainly supported by Thomas Bageant’s (2009) lively discussion of US culture in *Deer Hunting with Jesus: Dispatches from America’s Class War*, from which I also quote below.

As Fukuyama (*ibid.* pp. 141-2) observes, to understand the US, we must start in the middle of the eighteenth century before the War of Independence when large numbers of Scotch-Irish settlers arrived. They came from poor and extremely violent regions of North Ireland, North England and Scotland that had been racked by centuries of oppression and violent conflicts. These migrants brought with them an intense individualism and a love of guns which became the origin of largely uncontrolled American gun culture. Further, as Bageant (*ibid.* p. xv) observed, these Scotch-Irish settlers brought with them intense religious beliefs in the power of individuals and the view that God is more important than the state, which have deep political impacts to this day.

As described in Fukuyama (*ibid.* 135-7), this distrust of government, leading to revolution against the British government, led in turn to numerous constraints on government power enshrined in the US Constitution. The Common Law was regarded as a higher source of authority than the Executive and this view was embodied in a strong role for the courts in governance, a tradition of local self-rule, and sovereignty divided among a host of bodies. In his first Inaugural Address to the nation, Thomas Jefferson “articulated America’s enduring distrust of bureaucracy and large government”. As a land of perceived opportunities, and few inherited inequalities, there was a widespread belief in a liberal society where individuals were free to advance themselves rather than in a strong state to redistribute wealth.

Moving through the nineteenth century, Fukuyama (*ibid.* p.165) describes how the US government became more involved in state-building projects but change was slow and public administration continued to lag European countries - and even ancient China. In his description, Americans continued to live with the legacy of distrust of government, strong institutional barriers to reform of government and poorer qualities of public services compared with other developed countries.

Turning to the present, Fukuyama (*ibid*, pp. 494-501) observes that the many checks and balances in the US system of government create numerous veto players, who obstruct effective government. The budget process, overseen by Congress, takes months to enact from February to mid-year. Major legislation, such as the *Affordable Care Act*, is in the hands of multiple congressional committees. In a parliamentary system, the majority party has clear responsibility. In the US, decentralised decision making “gives excessive representation to the views of interest groups and activist organisations that collectively do not add up to a sovereign American people”.

Fukuyama (*ibid*, pp. 552-3) concludes that there is significant decay in the US political system due to the intersection of two main forces: America has become more polarised and class ridden and there has been a huge increase in the power and influence of moneyed interest groups.⁹ Distrust of government has led to complex unworkable procedures. Consequently government “does not perform well, which confirms people’s original distrust”.

4.1 Some key features of the US economy

Given these general observations on US history and culture, what are some key economic features of society and government in the United States today? As a starting point we should observe that public spending in the US, at around 36% of GDP, is at the low end of OECD countries.¹⁰ Moreover, this includes military spending at some 3.5% of GDP and incarceration expenditure of nearly 1% of GDP, which are both far higher than in any other OECD country.

On the other hand, the US has the highest poverty rate, and is the most unequal country, in the OECD (Abelson, 2018, Table 20.5). The government has traditionally provided little support via regulations to labour. In the early 20th century, the Supreme Court repeatedly struck down minimum wage laws and limits on hours worked on the basis that they infringed liberty of contract guaranteed by the Constitution’s 14th amendments clause.¹¹ While in the 1930s, F.D Roosevelt introduced some labour friendly regulations, Bageant (*ibid.*, p.9) observes that lack of government support for labour movements is a major factor in the relative decline in labour earnings. Menkel-Meadow (2013) describes how collective contracts were transformed into individual contracts whereby workers are required to agree to mandatory arbitration processes in their form contracts. When workers enter a dispute with their company, they are required to enter mediation with a mediator employed by the company.

Moreover, US has a minimal welfare state. Bageant (2009, p.9) notes that “public assistance accounts for only one-quarter of the income of poor Americans”. As Rosen and Gayer note (2014, p. 253), the official poverty line in the US is well below half the median household income (the standard OECD metric). Stiglitz and Rosengard (2015, p. 429) observe that in the US there is an “antipathy to welfare”. Bageant explains this in part by the moral beliefs of US citizens against entitlements. In the words of then Republican Speaker of the House, Paul Ryan, the welfare state is not a safety net, but “a hammock ... that lulls able-bodied people to live lives of dependency and complacency (*The Economist*, 14 July 2018).¹²

Not only is the US welfare system relatively small, it is “a hodgepodge” (Rosen and Gayer, 2014, p. 253) with most assistance delivered through contributory “social insurance” rather than tax-funded public assistance. In 2009, social insurance accounted for 27% of public expenditure, whereas public assistance was only 15% (Stiglitz and Rosengard, 2015, pp. 44-45). Social insurance programs (including retirement incomes and health benefits via Medicare) are funded by mandatory contributions through payroll taxes on employers. Program eligibility is conditioned largely on making contributions (Gruber, 2016, p. 337). Eligibility and benefits are typically not means-tested. As Stiglitz and Rosengard (2015, p. 38) observe, the main beneficiaries of the social insurance programs are the middle class.

Further, most public assistance is in-kind welfare transfers. Some 70% of welfare transfers are in the form of food aid, health services via Medicaid and housing (Rosen and Gayer 2014, p. 270). Also, strict conditions in terms of time limits and work requirements are attached to income benefits under Temporary Assistance for Needy Families (Rosen and Gayer, 2014, p. 271).¹³

Another major feature of many US welfare services is their state base. The “states have virtually total control over the structure of their welfare systems, including which families to support”, (Rosen and Gayer, 2014, p. 272). There are significant differences in welfare policies between states reflecting both substantial differences in wealth and doubtless ideology. Unlike in Australia or Canada, there is no requirement to ensure that each state has the fiscal capacity to provide a similar level of public services.

Several of these features arise in health services in the US where, unlike Australia and many OECD countries, services are dominated by private health care businesses charging market fees and a private health insurance model. The two main public programs are Medicaid and Medicare. Medicaid provides means-tested support for health services for low income and disabled people (covering 74 million in 2017, some 22 per cent of the population). Federally mandated, it is run by the states and depends on state revenue although also supported by federal funds (Gruber, 2016, p. 474). Medicare provides medical support for the elderly and non-elderly disabled, but requires substantial contributions (Gruber, 2016, p. 480). To be eligible, a US citizen must have worked and paid payroll taxes for 10 years. Other citizens can purchase cover at full cost.

Public education in the US is also provided mainly by the states and local governments. As Stiglitz and Rosenberg (2015, p. 416) observe, there is huge opposition to federal oversight. Consequently, public schools vary widely in class sizes and in resources available per student (Rosen and Gayer, 2014, p. 510). Overall, it is poorly resourced with public school teachers paid 19% less than comparably educated professionals. And US students score poorly on international tests (Gruber, 2015, p.26).

Two other economic-related features should be briefly observed. First, the US has a different tax system to most OECD countries. It has no VAT (or GST) tax system and limited sales taxes. On the other hand, it has a high Federal payroll tax. And while the US now has a relatively low corporate tax rate, the federal government taxes dividends as well as corporate profits. Second, lawyers are more influential in government than economists. Unlike Australia, the US does not have an independent Productivity Commission working in the national interest. Enforcement of anti-trust legislation under the Federal

Trade Commission, which is dominated by lawyers, is dormant. And, under the *Clean Air Act*, cost-benefit analysis is prohibited (Rosen and Gayer, 2014, p. 170).

In conclusion, generalisations may be qualified, and times change. Arguably, the US of Donald Trump in 2018 is very different from the US of Franklin D. Roosevelt and the “New Deal” in the 1930s. But the differences described above are so profound that even if we were to add some reservations, we would surely be confronted by very different cultures in the US compared with Australia or much of Europe.

5 Features of Leading US Texts on Public Finance / Public Economics

In this section, I briefly outline some key features in the presentation of public finance / economics in the Rosen and Gayer (2014) and Gruber (2016) texts and then discuss some issues in each text in turn. Inevitably, these observations are selective, but the Annex provides strong supporting metrics.^{14, 15,}

As a generalisation, the theme of both Rosen and Gayer (2014) and Gruber (2016) is the residual role of government in dealing with market failures rather than on equity issues (see metrics in Annex) or the positive role of government as a provider of social welfare. This is essentially a neo-liberal approach.

At an empirical level, both texts focus strongly on US government expenditure and taxation. Both texts discuss in detail the concept and practice of social insurance, while a UK or Australian text would discuss social welfare (see, for example, UK text by Connolly and Munro, 1999). However, neither US text discusses the critical issue of globalisation and its impacts on the economy.

Turning to expression issues (the power of verbal framing), both US texts make frequent reference to “moral hazards”, especially in the context of social insurance. In the UK / Australian tradition, it is recognised that providing benefits may create incentives that change behaviour and have adverse economic consequences. Typically, these are described as *disincentives* to efficient behaviour and outcomes, not as *moral hazards* which implies immoral behaviour. Further, UK / Australian texts recognise that government subsidies or taxes may change behaviour and have adverse economic consequences. These costs are usually described as “deadweight costs”. On the other hand, Rosen and Gayer make numerous references to “excess burdens” which imply that all taxes are a burden.

5.1 Gruber (2016)

In “The Best Books in Public Finance”,¹⁶ Gruber asks: “what is public finance, *otherwise known as public economics*?” (my italics). Both here, and in his textbook (2016, p.3), he answers: “Public finance is the study of the role of government in the economy... It involves answering the **four questions of public finance**. When should government intervene? How should governments intervene? What is the impact of government intervention in the economy? And why do governments intervene in the way that they do?” In other words, the economy is the default and government is all about “intervening” in it.

Gruber (2016, p.17) writes that “programs such as Social Security and government health insurance programs are called **social insurance programs**, programs designed to address failures in private insurance markets”. These programs (p.336) “are government interventions to provide insurance against adverse events”. These “adverse events” may include earnings loss, job loss, career ending disability, on-the-job accidents, medical expenditure in old age.

On the other hand, there is no explicit mention of providing social welfare. Indeed, in “Best Books in Public Finance”, Gruber writes “and so a question like what is the optimal role of the government in the economy — that is just too broad”. In the 24 pages of Chapter 1 (Gruber, 2016) introducing government, there are just four paragraphs on redistribution (pp. 7-8). And the text devotes only three pages (pp. 54-56) to discussing the nature of social welfare and the social welfare function. On the other hand, in “Best Books in Public Finance”, Gruber writes that “health is the single most important topic in public finance today” and Chapter 1 in Gruber (2016) contains some six pages on the US health care system. Important though health is, that would not be a widely agreed view.

On pp. 4-5 of Chapter 1, Gruber writes: “The existence of a large number of uninsured (49 million persons before the *Affordable Care Act* in 2010) does not, however, imply that the market does not work... That a small minority of the population is uninsured does not by itself prove that there is a problem in the market; it just implies that those without insurance don’t value it enough to buy it at existing prices”. (!) The text then discusses the market inefficiencies of negative externalities in health when people do not take influenza vaccinations. But poor health has many causes, including genetic factors, dysfunctional families and poverty. These are not market failures. In the social democratic tradition, provision of health services is a core welfare service, not a limited response to market failure.

The following are some more detailed points that reinforce the general observations above.

Chapter 4: budgeting concepts. In Australia, we distinguish between cash and accrual accounting and between recurrent and capital expenditure (Abelson, 2018, Chapter 2). On the other hand, Gruber identifies cash accounting with recurrent expenditure and discounts capital budgeting as impractical.

On pages 342-363, Gruber discusses provision of social insurance. This is justified by consumption smoothing (p. 360) not equity. The main problem (cost) is moral hazard due to asymmetric information. Adverse selection leads insurers to under-insure. On the other hand, insurance creates moral hazards that encourage “adverse behaviour”. These are efficiency failures justifying social insurance, not equity motives.

On pp 405-9, Gruber describes unemployment insurance. To qualify, workers must have earned minimum amounts, must not be fired, and must be looking for work. Under a quarter of unemployed workers qualify for the insurance payment. The Australian system is quite different.

Chapters 15 and 16 discuss health care systems in the US. As we saw in Section 4, the two public health programs (Medicaid and Medicare) are very different to public health in Australia.

Chapter 17 describes the relatively small income support programs. Much of this chapter discusses the impact of moral hazard on income support systems. There is little discussion of causes of poverty (many of which are not market failures) or of using market interventions to support labour earnings.

As described in Gruber (554-6), the US tax system provides high deductions from income tax schedules and high tax credits. The analysis of the tax system is basically in terms of efficiency effects: on labour supply, savings and risk-taking. There is little discussion of optimal taxation: using tax to optimise a social welfare function (see Abelson, 2018, Chapter 28).

5.2 Rosen and Gayer (2014)

In these high-level observations on the Rosen and Gayer text, we note again the authors' ambivalence on the role of equity and welfare in public economics, some limitations in subject matter covered, and the nature of empirical content in the text.

At the outset, Rosen and Gayer (2014, p.1) echo Fukiyama's message that "people's political philosophies influence their views on the role of government". They point out (p. 108) that fewer than 20% of the people are satisfied with the work of Congress and (p. 292) that there is a widespread view that "poverty has moral and spiritual roots". And (p. 10), in the US, "health care is viewed as more of an individual responsibility" than a government one.

Regarding the role of government in redistribution, there are three chapters on social security (Chapters 9 to 11) before one on income redistribution. In Chapter 11 (p.223), like Gruber, the authors ask: "A crucial question is whether there is some market failure that Social Security remedies". While there is a brief discussion (p. 227) of "explicit transfers" in social security programs, the authors conclude (p.270) that "social security is usually considered an insurance program rather than a distributional program". And when the authors get to income distribution in Chapter 12, they note (p.252) that "Before proceeding we must discuss whether economists should consider distributional issues at all".

Turning to the presentation of public economics, Rosen and Gayer state (p.3) that this book "follows tradition by focusing on government spending and taxation, only occasionally touching on regulatory policies", with anti-trust issues covered in courses on industrial organisation. While this may be true in the US, UK public economics texts such as Bailey (2002) and Connolly and Munro (1999) discuss competition policy and regulation in detail. Rosen and Gayer also have little discussion of the public versus v private production of goods, which is a general issue in provision of utilities, education and social housing as well as in health. By contrast, Stiglitz and Rosenberg (2015) and Atkinson and Stiglitz (2015) discuss all these issues in some detail.¹⁷

Fourthly, we note that the material is predominantly US material, especially Chapters 9 to 11 and 17 to 22. There is little international material, for example compared with Stiglitz and Rosenberg (2015).

The following are some more detailed supporting observations.

In Chapter 1, in discussing government spending, there is no discussion of key budgetary concepts: cash versus accrual budgeting or recurrent expenditure and capital expenditures.

Chapter 7 on education discusses almost entirely efficiency issues. There is no discussion of an equity basis for funding. In 14 pages, there are three short paragraphs on equity of outcomes.

The discussion of health care in Chapters 9 and 10 focuses on moral hazards, information failures and efficiency issues. There is limited discussion of the role of poverty and equity issues. Both chapters focus heavily on US practices.

On p. 258, the text expresses scepticism about one of the foundation stones of welfare economics — the falling marginal utility of individual income and hence the welfare benefits of redistribution.

On p. 338, the text support Feldstein's (2006) estimate that the excess burden of increases in personal tax rates could be in the order of 76 cents per dollar of revenue raised. This is at the very top end of Australian estimates (Abelson, 2012, p.392).

7 Stiglitz and Rosengard (2015): An Alternative Perspective

Turning to Stiglitz and Rosengard (2015), we make four main points: the wide role of government, the major issue of fairness and redistribution, the breadth of topics discussed and the international coverage and expressions.

At the start of this paper, I cited the opening statement of their book (p.3) that our lives are affected in "countless ways by the activities of government". In this social democratic perspective, government is much more than a regulator of market failures. On p.394, the authors observe that "education has long been recognised as a responsibility of government". On p. 470, they observe that social assistance in its various forms is "one of the primary functions of government".

Thus, fundamentally, as the Preface makes clear, government is about welfare and fairness as well as about efficiency. On p.95, the authors state that "One of the most important tasks of government is to redistribute income". Reflecting this, nearly every chapter has an explicit discussion of distributional consequences. In Chapter 6, there is a major discussion of the distributional impacts of environmental policies. "Much of the debate (about controlling pollution) is about distribution" (p.149).

Chapter 7 gives explicit attention to equity issues — there are "numerous examples on which choices between efficiency and equity must be made" (p.175). On pp. 188-9, the authors argue that efficiency and equality are linked and that better public schools would help both. In Chapter 13 on health care, they introduce the concept of specific egalitarianism for health (p. 382). In Chapter 22 (pp. 482-3) on social security, they describe how social insurance programs provide insurance *and* redistribute income and how confusion between these two roles is a major impediment in the evaluation and reform of social insurance programs. The Annex below provides strong supporting metrics.

Turning to the breadth of topics, there is extensive discussion of government role in regulations. This includes financial regulation (p.12), regulatory policies for air, land and water (Chapter 6), regulation of monopolies and public and private production (Chapter 8) and health care (Chapter 13). The relative importance given to regulation is supported by metrics in the Annex.

Although the text gives mainly US examples, there are many international examples (again see Annex). These occur, for example, in comparing government expenditure across countries (pp. 45-6), discussion of international social security systems e.g. for pensions (pp. 496-7) and in description of the European VAT tax system (p. 557). The language is also more international. There are scores of references to deadweight losses, but only one to excess burden (p. 182). There are mercifully few references to moral hazards.

As I have argued, and the authors note (p.5) “The origins of the mixed economy in the US lie in the origins of the country itself...Some of the central ideas of the eighteenth and nineteenth century ... continue to be important today.” The text (p. 10) highlights that inequality in the US is highest and opportunity for advancement lowest in the western world. But the primary author, Stiglitz, has a self-confessed “passionate involvement in debates about public sector policies” (p. xxvii). This is reflected in the text.

8 Conclusions

In *Doughnut Economics*, a recently highly acclaimed book, Raworth (2017) argues eloquently that it is a mistake to think of the economy separately from the society of which it is part. This has been a major thesis of this paper. Moreover, empirical context is also important in understanding public economics, defined in this paper as the role of government in the economy and in the provision of social welfare.

This paper finds that the major US texts on public economics (Rosen and Gayer, 2014; Gruber, 2016), widely used in Australia and elsewhere, draw on the US culture of distrust of government along with a related neo-liberal view, to present a limited role of government, and they discuss largely US examples. It must be stressed that this paper has made no technical criticisms of these widely appreciated texts.

By contrast, Stiglitz and Rosengard (2015) is written in the social democratic tradition of government. The text explicitly treats social welfare and equity as major roles of government, it contains many international examples and is easy to read. The paper finds that this approach is much more in line with Australian culture and economy. But, in the 879 pages, there are just three references to Australia. Thus, an Australian text such as Abelson (2012, 2018), also written in the socio-democratic tradition, may complement Stiglitz and Rosengard. While analysis of other countries has been beyond the scope of this paper, it seems likely that a similar conclusion would apply to many others.

Finally, it may be observed that, notwithstanding these preferences, students should be exposed to alternative ideologies, certainly including the neo-liberal approach.

Annex Page Counts in Public Economics Texts

The text is inevitably selective in its discussion of the three texts: Rosen and Gayer, Gruber, and Stiglitz and Rosengard. To attempt to achieve some metrics, I analysed the subject indices in the texts. In doing so, I adopted the reference headings used by the authors. In many cases, this includes sub-headings. For example, under equity-efficiency trade-offs, the Stiglitz and Rosengard index has social choices (pp. 164-187) and social welfare functions (pp. 169-173, 174). I added these together (as 30 pages) rather than simply take the first number (24 pages) as these references could have been listed separately.

Of course, the results also depend (i) on how the publishers and/or authors treated the subject index and (ii) the accuracy of these indices. For example, in Gruber there are many references to moral hazard that are not picked up in the subject index and for which I have attempted to make adjustment. With these caveats, the following broad observations appear justified.

Equity issues: Although the authors use different headings for equity issues, the Stiglitz / Rosengard text is much more concerned with equity issues than the other two texts.

International issues: The Stiglitz / Rosengard text is more international than either of the other two texts.

Other issues: The Stiglitz / Rosengard text is also more focused on regulations than the other two texts. On the other hand, “moral hazard” is a prominent feature of both Rosen and Gayer and Gruber texts. “Excess burden” of tax is a prominent feature of the Rosen and Gayer text; but assuming accurate indexation, it appears nowhere in the Gruber text.

For completeness, the total pages of each text are also provided. Given the differences in page lengths, the percentage of pages citing each issue may be preferred to absolute page numbers.

Table 1 Page Counts in Subject Indexes of Public Economics Texts

Subject	Rosen / Gayer	Gruber	Stiglitz / Rosengard
Equity Issues			
Distribution / distributional effects	0	0	19
Equality / equity issues	0	7	3
Equity / efficiency trade-offs	16	5	83
Fairness	5	0	35
Horizontal equity	5	3	13
Income distribution / redistribution	63	11	30
Inequality / inequities	2	0	19
Poverty	9	3	22
Social welfare functions	5	3	21
Vertical equity	1	3	10
Total	106	35	255
Geography			
Australia	0	0	3
Brazil	0	0	1
Canada	0	2	2
Chile	0	0	6
China	0	0	1
France	0	0	1
Germany	1	0	3
India	1	0	1
Iraq / Afghanistan	0	1	6
Japan	1	1	5
Mexico	0	0	3
OECD (countries)	0	13	8
Russia	0	0	1
Sweden	0	0	1
Taiwan	0	0	1
United Arab Emirates	1	0	0
United Kingdom	0	0	2
United Nations	1	0	3
Total	5	17	49
Other features			
Excess burden	66	0	1
Moral hazard	12	15 ^a	4
Deadweight loss	2	18	31
Regulation	12	8	24
Total pages in text	549	810	879

(a) This includes pages in Chapters 14 and 17 that include references to “moral hazard” that are not included in the subject index.

Endnotes

¹ Gruber's text is the major reference for the Public Finance course (EC 325, 2018/19) at the London School of Economics; Rosen and Gayer is the major reference at the National University of Singapore.

² Stiglitz and Rosengard is used as the comparator because of its quality and the lack of any other similar quality public economics text. Professor Barr (London School of Economics) confirmed that this is the case in the UK. Abelson (3E, 2012) and (4E,2018) is the major Australian text in public economics. 4E is available open-access at www.applieconomics.com.au.

³ It may be noted that Professor Stiglitz spent five years on a Fulbright scholarship (1966 to 1970) at Cambridge University (UK). He also co-authored *Lectures in Public Economics* (1980, 2015) with Tony Atkinson described by Piketty as "the godfather of historical studies of income and wealth" (en.wikipedia.org/wiki/Tony_Atkinson). This text is in the social democratic mould but not discussed in this paper as it is primarily a graduate text.

⁴ This quote is cited in Fukuyama, 2015, page v.

⁵ Author's research. Of course, some economists with overseas Ph.Ds are Australian by background. The writer was born in the UK. He has been an Australian citizen for 44 years and was an Australian when he obtained his Ph.D from London University.

⁶ It may also be noted that few public economics texts, including the three major ones discussed in this paper, discuss the role of government in economic growth. Abelson (2011, 2018, Chapter 5) does discuss this role.

⁷ Most of these topics can be found in Stiglitz, *Economics of the Public Sector*.

⁸ The compromises (or differences), such as the highly targeted social support system, the regulated private pension system and student loans for university education, have led some commentators (e.g. Breunig and Fabian, eds: 2018) to describe the Australian polity as a "hybrid system".

⁹ For more on the power of super rich US interest groups, see *Dark Money* by Jane Mayer (2016).

¹⁰ As discussed above, Australian public expenditure is also around a low 36% of GDP because social spending is highly targeted and the major retirement pension scheme is off budget.

¹¹ *The Economist*, 15 September 2018, p.22.

¹² Another possible explanation is racism in the US, where welfare is seen to assist Black Africans especially. "What has for so long been hidden – or wilfully ignored – is now in the open. Americans will have to decide, whether or not this country will remain racist" (E.S.Glade, *Time* magazine, 17 September 2018, p.40). This is not discussed in Gruber or Rosen and Gayer.

¹³ The largest cash transfer scheme to low income individuals in the US is the earned income tax credit system which links welfare to work (Rosen and Gayer, 2014, p. 272).

¹⁴ It should be acknowledged that some US writers, notably Musgrave and Musgrave (1989) and Stiglitz's texts, take a social democratic view of the role of government. But Roll's *History of Economic Thought*

(1973) indicates that US economists traditionally played a minor role in the development of welfare economics and the role of government, though Kenneth Arrow would be a major exception.

¹⁵ Unlike Stiglitz (see footnote 3), Professor Rosen (Princeton University, sole author of E1 to E7) and Professor Gruber (MIT) apparently trained and have taught exclusively at US universities.

¹⁶ Gruber, *The Best Books in Public Finance*, <https://fivebooks.com/best-books/jonathan-gruber-on-public-finance/>

¹⁷ Competition policy and public production are also important issues in Australia (Abelson, 2012, 2018).

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