

THE PROSPECTS FOR PUBLIC ECONOMICS

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I. Introduction

- 1.1 I propose to talk about the problem that appears to have arisen in several countries of how to maintain the interest of staff , students and their future employers , in public economics as a well-defined if rapidly evolving discipline .
- 1.2 I shall contend that the problem, if there is one, arises mainly from the changes which beset all ‘products’ including educational and scientific services , namely the prospect of both product and process innovations which affect both its supply and demand conditions . In doing so , I shall stress that this is not a recent phenomenon and that I have perhaps a comparative advantage in having lived through and apparently survived major changes in the provision of ideas on public policies emanating from the study of the public sector . I exploit this possible advantage by beginning with a brief , inevitably superficial survey of this process of change before concentrating on the present situation .

II. The Evolution of Public Economics

- 2.1 I was attracted to the economics of public policy before I even started to study it at university level . So some cognisance of the budget as an instrument of policy had to be acquired and I did so at a time of great ferment about the dimensions of public policy and the role of the public finances in promoting policy objectives , and also in the economic analysis which depicted how public transactions would affect the structure and growth of the economy .
- 2.2 Perhaps it is useful to set out a simple methodology of the way in which policy operated as the ‘demand-led’ element can alter affect the study of the public sector :
 - (i) The content and dimensions of policy will depend on the objectives of the controllers of the instruments , called the ‘government’ , and in a dynamic setting on the changes in both the policy objectives and / or the trade-offs between them .
 - (ii) The use of particular instruments will depend on the perception of their efficiency in controlling movements in the major economic variables in the economy and this

perception must in principle change as the policy mix changes . Immediately we see that implicit comparisons must be made between the use of monetary policy , fiscal (including debt) policy , and regulation . This points towards integrated study of these various facets of policy . In short ‘public economics’ would be a suitable description of it .

- (iii) Of course , such an integrated approach to economic policy makes heroic assumptions when it comes to the implementation of policy . The claim that government can exercise control over movements in economic variables and move them in some desired direction postulates an extension of knowledge which is highly dependent on professional skills of economists , accountants and lawyers . It assumes that economics can provide sensible predictions of movements in the variables , accountants and lawyers can draft tax laws and regulations which are clear and easy to administer, not to speak of the other important skills in play in controlling public expenditure . It assumes what is now called ‘joined-up government’ with close collaboration and agreement in policy implementation by separate government departments and authorities. It presupposes that the government authority will not be challenged by democratic action – no important feedback effects . This last-named offers stimulus to intellectual interest in the use of economics to examine political behaviour and the addition of yet a further dimension to public sector studies in the form of public choice analysis, alongside the important function of developing computable models of the economy which rely on acquisition of further skills in mathematical economics and econometrics.
- (iv) One must not forget that the demand for economic analysis and advice will extend to those affected by government actions , and the more extensive the range of government controls the greater the degree of attention to how these will affect the economic interests particularly large corporations . This is well known in

the field of tax planning , where skilled accountants and lawyers are employed , but it now extends to economists second guessing government policy changes and the study of their effects , as well as the effects of measures already in place .

- 2.3 The message from this potted history of the evolution of economic policy is that the study of public finance , even defined to include fiscal policy , is not self-sufficient when it comes to determining the efficiency of the fiscal system , because of the ‘competition’ from other policy instruments . That is not to say that experts in particular fiscal measures with an economics training are superfluous , any more than experts on competition policy measures , but the final judgment on the appropriate nature of fiscal measures cannot be made independently of the other measures that might be used . The logical consequence appears to be that the appropriate academic discipline , so far as policy determines its content , should be public economics , but with the core being some sort of targets-instruments model . Whether this approach should embody a normative approach which goes beyond simply determining the consistency as distinct from the desirability of policy is an open question . I refer to it later .

III. The Public Economics Curriculum in the UK

- 3.1 In fact , the best courses in the UK are much in line with the practical issues of the day , but tempered by a strong emphasis on the use of economic analysis as the backbone of the courses .I shall comment on this later using York and LSE as examples.
- 3.2 Economics being the backbone of the subject is traditional in UK teaching of public finance and latterly in public economics , with only the barest reference to administrative and legal aspects of fiscal matters . Public economics has never been directed at a vocational training , although it is obviously useful for those who become employed in a professional capacity in government as part of their undergraduate preparation before proceeding to a

training as an accountant or lawyer working in the public sector . Such training , until fairly recently , did not require further study at university but membership of a professional accounting or legal association where an apprenticeship system operates . That is not to say that there is not a demand for those with a training in public economics in appointments as analysts or advisers but primarily because they are trained as economists , but this is a relatively narrow market , even if we take account of appointments in international organizations.

(3.3 One must take account of that long British tradition that those with a first class BA , preferably from O and C scholars in Classics , were capable of undertaking any task in the public sector in the higher civil service .. I can only recall one Chairman of the Board of Inland Revenue who was trained as an economist , and a good friend of mine , who carried out the last major reform of our corporation tax was a social anthropologist!)

3.4 Anecdotal evidence of what I have been saying about public economics is offered by two facts which you are probably familiar with . The first is that there are relatively few chairs in public sector studies or public economics . I have never held such a chair and even today the senior Prof. at LSE , Tim Besley , is , as I was a Professor of Economics – I only achieved my goal as an Hon.Prof. at Heriot-Watt ! The second is the relatively small membership of Brits in the IIPF , with less than half of them in academic posts.

IV. THE PRESENT 'MARKET' FOR PUBLIC ECONOMICS

4.1 The first major influence on the market for PE has been the fundamental proposition that economics is a positive science and therefore that generalisations about the economy must be based on clearly presented models which are empirically testable . The rapid development or 'improvement' in modelling coupled with parallel developments in econometric testing methods (including latterly experimental methods) has influenced teachers to increase the degree of difficulty of

courses , often beyond the capacity of potential students without a quite advanced mathematical training . At the same time , it is widely regarded by teachers that they should not make any pedagogical concessions which would dilute the technical content of courses . As it is , staff are increasingly (in the UK at least) being judged by their output of articles in peer-reviewed journals and their teaching skills are taken much less into account than hitherto . PE is no exception . Indeed, it could be argued that the great virtue of input into techniques removes the necessity for over-detailed description of the institutional structure of the public sector . All that appears necessary is to be presented at the appropriate time (whenever that is) with the policy problem and the techniques which come into play . Investment in technique offers the prospect of rapid technology transfer – or so it is argued.

- 4.2 The barriers to entry into economics presented by increased investment into mathematical techniques operate also in the PE case . Part of the implicit gap in consumer demand for economics is filled by applied mathematicians who regard our subject as an interesting career alternative to becoming a physicist . It also follows that the opportunity cost of bringing the attention of students to actual policy dilemmas is too high for the teachers , while it may be the very areas that attracts potential students in the first place .
- 4.3 Apart from the effect of the barriers to entry on recruitment of students resulting from an advance in technology which they are reluctant to master , there are the rather limited career prospects other than academia and other research-based units ; and these require further advanced study . In contrast , if a student is prepared to spend only one further year after their first degree , taking a Master's degree , then with a reasonably good first degree, in any field where they have been learnt the elements of numeracy , they can widen rather than deepen their knowledge in a way with just as good and sometimes better prospects of obtaining posts with good employment opportunities . Hence the competition to PE which emanates from such fields as Health Economics , Environmental Economics, Energy Economics ,Media Economics not to speak of taking an MBA in one form or another . Nor need the identification of competitive acquisition on skills stop at

economics courses. There has been a proliferation of opportunities to invest in more general, ie easier, studies with a vocational bias which transform Health Economics, for example, into, say, 'Applied Health Studies' often tied to placement of students in the appropriate employment Environment. These may include introductory courses on Economics and even perhaps some applied public finance. The tying of courses to employment prospects is a particular feature of recently create universities and used as a recruiting device.

V. STRATEGIES OF SURVIVAL AND DEVELOPMENT

- 5.1 The general problem of retaining Public Economics as a major element in Economics teaching and research is closely tied to the position of Economics itself. The fall in the relative number of those opting for Economics as a major subject in undergraduate and graduate courses has been a matter of concern of university administrations depending on state finance, which is based on 'output criteria, which must include student numbers as one if not the most important measure of performance. Amalgamation of Economics with Management or Business Schools has proceeded apace. There is a prospect that Economics as a specialism at the u.g.level will disappear. It will remain a 'foundation' subject but not taught to an advanced level except to a small minority. It then comes under pressure to be taught in a way 'relevant' to the major subject, and I have known the teachers of the 'softer' subjects claim that economists put unnecessary barriers in the way of students, i.e. we expect them to think.
- 5.2 Before arriving at what must be tentative generalisations about changes that may be necessary in order to maintain PE as one of the principal elements in the research and didactic duties of academic economists, it may be interesting to look at an actual example. Naturally, I have chosen York. Let me outline the way in which change has been taken into account:
- (i) The first thing to bear in mind is that the first Professors were chosen because they had a professional interest in public finance and fiscal policy but were obliged to

teach in other fields as well , thus covering general obligations to train economists and to build up as rapidly as possible a national and perhaps international reputation in a particular research field . However, as these Professors retired , any long-term commitment to maintaining the concentration of effort to maintain reputation would depend on a decision about how far permanent staff wished to confine the allocation of resources to the original field and could recruit suitable candidates as research leaders. The decision would depend not only the availability of research funding but also on the pressures of general teaching obligations emanating from student demand to study economics and PE in particular .

- (ii) In fact , the combination of the research interests and the growing recognition of the importance of understanding the economic problems of the National Health Service gave York a head start in the development of teaching and research in this area – an important reason being the reputations of economists – to name only the ‘pioneers’ – such as Alan William , Tony Culyer and Alan Maynard . All three has an independent reputation in the economics of public policy so that the development of this area was a natural outgrowth of the original concentration on public economics . This area is still the star attraction in the graduate work , but it has required a concomitant growth in demand for the technical equipment provided by econometrics and micro-economic modelling .
- (iii) The logical consequence of accepting that deepening of understanding depended on access to techniques is to maintain that ‘widening’ would provide an additional advantage by linking PE with other currently fashionable areas of economics which are tied largely to public employment of the kind mentioned in 4.3 above . York has done this by identifying ‘flagship’ subjects , including PE , and garnishing them with optional studies in a wide range of related fields. This is demonstrated in the curriculum details displayed in the Figure.

- (iv) I am informed that the enrolment for next year in PE is as many as 70+ students which is, comparatively speaking, well ahead of other graduate schools in the UK. It must be stressed that, as in other major centres, particularly LSE, MA graduate work at York is an invisible export industry. of the students come from abroad, attracted, no doubt, by good teaching and research, opportunities to learn English immediately applicable to its exploitation as an essential prerequisite for a career as an economist which extend increasingly to employment in international agencies.

VI. SOME DOUBTS AND RESERVATIONS (Rough outline)

- 6.1 I believe that there is a danger that the emphasis on economic analysis being placed in the learning of techniques produces a possibly unconscious bias towards a neglect of the realities of policy formulation. This is not an excuse for diluting the analytical content of the degree with purely descriptive material, but accepting the challenge of considering techniques, if they exist, for identifying the 'best' instruments for implementing policies, given the constraints on having them accepted by the electorate, politicians and public officials. I think there is a possibly unconscious bias in PE studies to ignore the probable feedback effects of their proposals, particularly those that are likely to affect the economic fortunes of 'stakeholders' in the political process.

The choice of techniques to extend the programme to cover policy implementation is difficult. One obvious approach is to apply the economic analysis of bureaucracy but this involves the sensitive matter of offering at least implicit criticism of the actions of government officials. Why "bite the hand that feeds you"? It is noteworthy that in none of the course material I have examined for York and elsewhere that the economic analysis of bureaucracy is specifically mentioned. It is also difficult to specify exactly which techniques would be appropriate to examine the fundamental problem of appraising the choice of policy instruments, e.g. when to use regulation and when to use taxation as an instrument of control, as arises particularly in the case of environmental control. The opportunity cost of extending PE

teaching to cover policy coordination is likely to be considered too high , and may have to be covered only by suggesting ‘further reading’ to those students with the time and inclination to look into them – probably a forlorn hope !

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