European Journal of the History of Economic Thought

ISSN: 0967-2567 (Print) 1469-5936 (Online) Journal homepage: https://www.tandfonline.com/loi/rejh20

Richard Abel Musgrave 1910 – 2007

Richard Sturn

To cite this article: Richard Sturn (2007) Richard Abel Musgrave 1910 – 2007, European Journal of the History of Economic Thought, 14:3, 587-595, DOI: 10.1080/09672560701570401

To link to this article: https://doi.org/10.1080/09672560701570401

Published online: 09 Oct 2007.

Submit your article to this journal

Article views: 2588

View related articles

Citing articles: 1 View citing articles

Full Terms & Conditions of access and use can be found at
https://www.tandfonline.com/action/journalInformation?journalCode=rejh20

Euro. J. History of Economic Thought 14:3 587–595 September 2007 Routledge Taylor & Francis Group

Obituary
Richard Abel Musgrave 1910–2007

Richard Sturn

1. Hero of two worlds

Richard Musgrave is the founder of modern public economics. More than that, he is, or ought to be, a 'hero of two worlds'. No other theorist contributed more to the development of modern Anglo-Saxon public economics than Musgrave, including giants such as Paul Samuelson and Arthur C. Pigou. Yet, standing on the shoulders of theorists such as Adolph Wagner, Emil Sax, Knut Wicksell and Erik Lindahl, Richard Musgrave can be duly regarded as the last of the great protagonists of continental public economics, including German Staatswirtschaft and Finanzwissenschaft.

Musgrave (1986: viii) summarizes his early work on public good provision as a PhD student in Harvard (culminating in Musgrave 1939) in the following way: 'In contrast to the Lindahl model, the Pigovian framework offered an alternative approach, and the puzzle was how to merge the two strands'. Not only in this respect, an outstanding characteristic of Musgrave's achievements is his ability to bridge the gap between seemingly distant or opposing paradigms, approaches, dimensions or levels. Concerning the overall development of modern public economics, two opposite dimensions of his contributions must be stressed: on the one hand, he suggested the well-known architecture of the branches of the public sector as three naves of the cathedral, allocation, distribution and stabilization, which partly complemented and partly superseded the traditional distinction of revenue and expenditure side of the public

Address for correspondence
Institute of Public Economics, University of Graz, Universitaetsstr. 15, 8010 Graz, Austria; e-mail: richard.sturn@uni-graz.at

The European Journal of the History of Economic Thought
ISSN 0967-2567 print/ISSN 1469-5936 online © 2007 Taylor & Francis
http://www.tandf.co.uk/journals
DOI: 10.1080/09672560701570401

budget related to a narrower conception of public finance. As put by Musgrave (1983), one or the other 'chapel' (such as fiscal federalism or cost-benefit analysis) was added to this cathedral in the course of time. On the other hand, he provided contributions to almost all of the concepts, issues and questions that turned out to be important within this encompassing edifice of modern public economics; most notably public goods as the fundament of the allocation wing, issues such as built-in flexibility relevant for the stabilization branch and various dimensions of distribution, which he unrepentantly emphasized as theoretical and as political issues, despite changing fashions in the profession, in related currents of political philosophy and in mental models dominating in politics.

Individual vs. community is a further dimension of Musgrave's unique capacity of integrating distinct levels of theory and heterogeneous approaches without losing focus. His firm commitment to individualist enlightenment values is beyond any doubt. Moreover, exploring the scope of rigorously individualistic accounts of genuinely public aspects of the economy is probably the central tenet of his multifaceted research programme. On the other hand, he takes seriously the arguments of German writers who emphasized the limits of purely individualist accounts of the state. They believed that certain valuations (which may or may not be thought of as individual valuations) can only be understood if individuals are considered as members of communities. To capture some of these concerns, Musgrave suggested the concept of merit goods, a somewhat eccentric chapel whose connection to the main naves of the cathedral is problematic, as he very well recognized: there is hardly a text by Musgrave on merit goods that fails to emphasize the theoretical and practical difficulties related to merit goods and other concepts dealing with 'communal wants' (e.g. Musgrave 1999: 33)[1]. Whenever suitable, he warns that the uncritical use of merit goods or communal wants is likely to have unwelcome paternalistic implications.

Musgrave was not a purist in still another sense: he was an eminent theoretical economist as well as a political economist in an emphatic enlightenment sense: 'my interest in the field has been motivated by a search for the good society, no less than by scientific curiosity' as Musgrave (1959: vi) puts it in the preface to his *magnum opus*. As a young man, he chose to study 'economics, . . . the field most likely to help me to understand society and perhaps to help to influence it' (Musgrave 1986: vii).

1 References to Musgrave (1999) refer to his contributions in the exchange Buchanan and Musgrave (1999).

This motivation led to a persistent interest in applied work, politico-economic issues and problems of political philosophy, later re-invigorated by the writings of his Harvard colleagues Nozick and Rawls. Musgrave is the author of a much-quoted article criticizing the way in which leisure is dealt with in the Rawlsian framework. In Musgrave (1999), he suggests a Rawls–Nozick synthesis, consisting of 75% Rawlsian maximin-egalitarianism and 25% Locke-Nozick entitlement theory.

A further important aspect of his disposition to bridge gaps is the way in which he dealt with the dichotomy of positive and normative theory. Musgrave's reflective and pragmatic approach to this problem is related to his interest in the politico-economic and practical dimension of economic theory emphasized above, and also to his foundational view of economics as a social science inspired by the writings of Max Weber. Musgrave carefully reflects upon the role of positive economics for policy advice as well as the limitations and the dangers of an exclusively normative stance, especially with regard to problems of the public sector. But he recognizes that ruling normative theory out of court is self-defeating; the same applies to postmodernist attempts of discarding the ideal of scientific objectivity *tout court*, at least for somebody aiming at a kind of public economics, which is meant to be useful for public policy. Value and objectivity must be distinguished in order to have a starting point for organizing their complex co-existence within theoretical and political frameworks. As he repeatedly emphasizes (e.g. Musgrave 1999), his views concerning the systematic role of the clarification of normative issues in theoretical economics as well as of normative models of a 'good' public sector in the context of practical politics owe much to his study of pertinent writings by Max Weber.

Last but not least, Musgrave was a prolific contributor to modern public economics, and also one of its most eminent historians. Regarding 'that most exciting aspect of history which is the history of ideas' (Musgrave 1983: 1), he is not only 'historian by osmosis' (a term self-referentially invoked by him as 'the prime benefit of growing older'): his seminal paper on 'The Voluntary Exchange Theory of the Public Economy' (Musgrave 1939) is to a considerable extent an analytical history concerned with pertinent contributions of Sax, Wicksell (1896) and Lindahl (1919). In '*The Theory of Public Finance*', Musgrave (1959) succinctly summarizes the historical background of key concepts in carefully crafted footnotes. The introduction to the collection '*Classics in the Theory of Public Finance*' (Musgrave and Peacock 1958) consists of the most useful ten pages for anybody who seeks a first orientation with regard to the various paths along which modern public economics developed from the diverse traditions of the nineteenth century. In more recent contributions, Musgrave (1983, 1997) systematically deals with the period in which modern public economics came into being as well as with its pre-history, particularly the role of German, Austrian, Italian and Swedish influences.

2. Biographical notes

Musgrave's disposition and unique success in bridging gaps of many kinds is likely to be related to his biography. Richard Abel Musgrave (14 December 1910 – 15 January 2007) was born into a family with a partially Jewish background and spent his childhood in Königstein im Taunus near Frankfurt am Main, Germany. Autobiographical notes inform us that Walter Rathenau was the hero of his youth and about his hopes for the Weimar Republic: 'that ill-fated yet noble experiment in German democracy (Musgrave 1986: vii.). In 1930, he went to Munich to begin his study of economics, hearing Adolf Weber lecturing on economics along the lines of Cassel's *Theory of Social Economy* and impressed by Zwiedeneck-Südenhorst. More traceable German influences date back to his Heidelberg years (1931 – 3), where he earned his first degree in economics. Three names stand out, Jacob Marschak, Alfred Weber (who organized a seminar introducing students to the thought of his brother Max, the eminent sociologist) and Otto Pfleiderer, the author of a book on public sector-related social accounting containing critical, crisp and useful summaries of the views of Sax, Wieser, Cassel etc. on public wants (Pfleiderer 1930). With Alfred Weber the leading figure (he ordered the Nazi swastika to be taken down from the flagpole of the institute in 1933), Heidelberg economics department was one of the not so many places in German academia where the commitment to democratic enlightenment values remained uncompromised at that time. This intellectual and political environment was congenial to his 'father's foresight' in leading to Musgrave's successful application for a fellowship of the International Institute of Education, which brought him to the University of Rochester in the United States in autumn 1933. Having been trained there in Marshallian economics, he moved to Harvard, where he became a member of a group of brilliant graduate students, amongst them Paul Samuelson, and received his PhD in 1937. Musgrave's (1939) seminal paper on public goods, the most important published result of the work he did in Harvard, will be discussed below. He became a US citizen and spent the greater part of the 1940s with the Fed in Washington. In the later period of his tenure at the Board of Governors of the Federal Reserve System, he served as assistant to Chairman Marriner Eccles.

He returned to academia in 1947, teaching first at Swarthmore College. Musgrave moved to the University of Michigan at Ann Arbor in 1949, where he worked on what was to become his *magnum opus* (Musgrave 1959) in a stimulating intellectual environment, including theorists such as Kenneth Boulding, Wolfgang Stolper and Lawrence Klein. Positions at John Hopkins (1958–61) and Princeton preceded Musgrave's return to Harvard in 1965, where he retired in 1981. As Harvard Emeritus, he was active as an adjunct professor in Santa Cruz, California for many years, where his wife and co-author Peggy was a member of the economics faculty.

3. Innovation as the Organization of Synthesis

Musgrave's approach to bridging gaps, merging and synthesizing is assembling rather than amalgamating. In this respect, he is the polar opposite to Marx as characterized by Schumpeter. Musgrave prefers a transparently organized cathedral (with three naves and several chapels, to use his own metaphors) to a monolithic building whose complex structuring elements are hidden behind a more or less richly ornamented façade. While admitting that most kinds of public expenditures are likely to give rise to interdependences affecting all three naves, he dislikes lack of clarity concerning the question: in which nave is some particular question, some practical problem or some analytical exercise located? Indeed, in monolithic but complex structures the dangers of getting lost and of overlooking some problems are notorious. His *magnum opus* (which is encompassing in thematic scope and pluralistic in foundational respect) is clearly organized in a way that is suitable to prevent these dangers and to provide equipment for swimming against the current, as different eras tend to neglect different things. Musgrave stresses issues of distribution in the 1980s and 1990s when allocation theory carried the day, whereas he emphasizes allocation in the 1950s, when 'the theory of Public Finance has been dominated by the study of the effects of fiscal policy upon the levels of income, employment and prices' (Musgrave and Peacock 1958: ix).

Perhaps the most characteristic passages concerning the way in which he thinks about the status of the different spheres of public economics are to be found in passages dealing with criticism raised by Paul Samuelson. Samuelson criticized putting apart the distribution and the allocation branch as circular and he also criticized the way in which allocation and stabilization branches are separated. While admitting that Samuelson's reasoning is impeccable with regard to the interdependencies emerging in a framework concerned with the conditions of the Pareto efficient provision of non-rival goods as the key problem, he insists not only on the didactic and practical advantages but also the analytical benefits of keeping the issues if public good allocation and distribution separate within a richer set of problems, in particular those of political mechanisms. Issues of distribution not only require distinct normative principles supplementing Pareto efficiency, but become relevant in a specific way when the problems of political mechanisms of public good-provision are considered.

To a considerable extent, Musgrave's achievements can be characterized as the *organization* of intellectual syntheses. The most demanding task was his approach to merge Continental and Pigovian thought in public economics. He was aware of his specific background concerning public good theory as the core micro base of the public sector: 'I could claim the comparative advantage (and what an advantage it was) of acquaintance with the continental literature – Austrian, Italian, and Swedish' (Musgrave 1986: viii). It most likely was even an absolute advantage and certainly the starting point for his conceptual imports in the field: Musgrave (1939) in the case of public (nonrival and nonexcludable) goods and (Musgrave 1959) with the more specifically German concept of merit goods. Both concepts seem to have been rather foreign to the Anglo-Saxon traditions.

It is understandable that Musgrave's attitude towards the more specifically German parts of his continental heritage (such as merit goods) is somewhat mixed. Nonetheless, there is a deep and important dimension in which specifically German roots play a role in Musgrave's thought concerning the systematic place of the state in a market economy: 'To ask by how much the state should be restrained . . . leaves the state as the defendant who must prove his innocence', says Musgrave (e.g. 1999: 129) and argues that this perspective is fundamentally flawed. The enforcement public norms puts constraints upon individual action, but a reasonable pattern of norms, in general, enables people – not only to emancipate themselves from the forces of the Hobbesian jungle. Analogously, reasonable provision of public goods implies tax burdens and perhaps deadweight losses, but public goods are also factors of production contributing to the dynamics of modern market economies. Put succinctly, the public sector is a set of institutions complementary to the market system (Musgrave 1999: 37). This view of the state as complementary is deeply rooted in the tradition of German Staatswirtschaftslehre of the nineteenth century and the Kantian theory of the state. The public sector is not seen as a necessary evil whose optimal size is determined by the idea that it should be kept to a minimum. While readily admitting the dangers of various kinds of distortions in the public sector, Musgrave insists that integrating policy failure into the modelling premises is theoretically unsound – and that the propagation and popularization of suchlike views in the last quarter of the twentieth century 'has been destructive of good government' (Musgrave 1999: 35).

Musgrave's view of market and state as complementary institutions entails that identifying the conditions for first-best market solutions as well as for first-best patterns of state activity provide indispensable guidance for meaningful second-best analysis. He thinks that we should aim at a neutral theoretical framework in which distortions/imperfections related to both types of institutions may be dealt with symmetrically. Following Wicksell (1896), Musgrave wishes to deal with the problems of political provision 'from the beginning'. Hence there is a foundational difference to a Pigovian market failure view. The latter – with some success – could be criticized for its allegedly asymmetric emphasis on market failure and neglect of government failure. *Mutatis mutandis,* there is an analogous foundational difference to Neo-Hobbesian frameworks inspired by a gloomy, pessimistic vision of public choice mechanisms as distorted by all kinds of rent-seeking and illusions, while at the same time using an idealized model of voluntary exchange as a kind of normative measuring rod. Musgrave's (1939) seminal *Quarterly Journal of Economics* paper on the voluntary exchange theory of the public economy is remarkable for several specific reasons: it not only contributed considerably to making Anglo-Saxon economists acquainted with Continental thought on public goods,[2] but it did so while at the same time setting the stage for a rigorous theoretical perspective of the revenue-expenditure process and for a critical appraisal of the voluntary exchange theory.[3] With truly (Max) Weberian discipline, Musgrave keeps his treatment of the problem to a considerable extent free from

2 Musgrave (1997: 149) writes that he 'likes to think that his own initial paper on the Wicksell-Lindahl model (1938)... helped to bring the problem to Paul Samuelson's attention, then a fellow graduate student at Harvard'.

3 Indeed, Musgrave (1939) is a German contribution in the following sense. German public economists of the interwar period took the challenge posed by the thought of Sax, Wicksell and Lindahl seriously but 'the marginal utility approach was rejected not only as impracticable but also as too individualistic and uncongenial to Finanzwissenschaft's more communal tradition' (Musgrave 1997: 163). This rejection was specifically targeted at the voluntary exchange theory. Taking this into account, Musgrave (1939) can also be seen as a particularly crisp German critique. In its main thrust, this paper is genuinely Wicksellian, but also somewhat related to 'German' views of the distinctive logic of public decision making: 'To summarize: as an interpretation of the actual revenue expenditure

pre-analytical visions, which colour pertinent writings of many other scholars, whether or not they endorse a marginal utility-approach to the analysis of the public sector.

'With the '20s, what has here been called the tradition of Finanzwissenschaft had largely come to an end. When German economists resumed fiscal analysis after the close of the war it was in the spirit of the English language model', writes Musgrave (1997: 164). This suggests that Finanzwissenschaft simply vanished without leaving traces, an assertion that implies downplaying Musgrave's own role in bringing about the foundational synthesis of modern public economics, most notably the concept of public goods and the conceptual architecture of public economics. But this understatement may be related to Richard Musgrave's constant disposition to give others their due. When dealing with other intellectual positions, he hardly ever fails to do his best to grasp the point in the opponent's argument, even if, all things considered, he feels compelled to conclude that the opponent's case was greatly overstated. Richard Musgrave was a master of measured, balanced and yet unambiguous judgement – something like a practitioner of a reflective equilibrium approach well before John Rawls suggested this concept. His death leaves a huge gap, not only for those who admired his combination of rigorous theorizing, a wide intellectual and historical horizon and his political stance of enlightenment reformism.

References

Buchanan, J.M. and Musgrave, R.A. (1999). *Public Finance and Public Choice: Two Contrasting Visions of the State*. Cambridge, MA: MIT Press.

Lindahl, E. (1919). *Die Gerechtigkeit der Besteuerung*. Lund: Gleerupska Universitets-Bokhandeln.

Musgrave, R.A. (1939). The Voluntary Exchange Theory of Public Economy. *Quarterly Journal of Economics*, LIII(February): 213–7.

—— (1959). *The Theory of Public Finance*. New York: McGraw-Hill.

—— (1983). Public finance, now and then. *Finanzarchiv N.F.*, 41: 1–10.

process, the voluntary exchange theory was found unacceptable because of the unrealistic nature of the voluntary exchange assumption in general and the competitive pricing assumption in particular. As a solution to the theory of tax justice it was found strictly dependent upon the premise of competitive pricing; the definition of the justice problem employed, moreover, appeared excessively narrow. As standards of reference for analysis and appraisal of actual revenue expenditure policies, the voluntary exchange model and its corollary, the neutral revenue expenditure process, were found unacceptable' (Musgrave 1939: 14).

—— (1986). *Collected Papers: Public Finance in a Democratic Society.* Vol. I: Social Goods, Taxation and Fiscal Policy. Vol II. Fiscal Doctrine, Growth, and Institutions. Wheatsheaf Books, distributed by Harvester Press.

—— (1997). Public finance and Finanzwissenschaft: Traditions compared. *Finanzarchiv N.F.*, 53: 145–93.

Musgrave, R.A. and Peacock, A.T. (eds) (1958). *Classics in the Theory of Public Finance.* London: Macmillan & Co. Ltd.; New York: The Macmillan Company.

Pfleiderer, O. (1930). *Die Staatswirtschaft und das Sozialprodukt.* (Finanzwissenschaftliche und volkswirtschaftliche Studien, No. 19.) Jena: Verlag von Gustav Fischer.

Wicksell, K. (1896). *Finanztheoretische Untersuchungen.* Jena: Gustav Fischer.