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# Musgrave and the Idea of Community

Maxime Desmarais-Tremblay<sup>1</sup>

Human beings live in groups. They share values with other members of their community, values that they transmit to new members. In turn, these values shape their expectations and the way they interact with other members of their community as well as with individuals of other groups. A truism in sociology, the previous statement would have been alien—or even dangerous—to some economists in the middle of the twentieth century. Richard A. Musgrave (1910-2007) was not one of them. Born and educated in Germany before he moved to the United States in 1933, Musgrave was a widely read intellectual who, throughout his long career, fought attempts to narrow the scope and methods of economics.<sup>2</sup> Faithful to the traditions of public finance, he kept a broad view of the economic functioning of the state, drawing ideas from works that would nowadays belong to other disciplines such as sociology and political philosophy (Sturn 2016a). Musgrave had always been critical of what we now call welfarism, and more generally of strict methodological individualism. For instance, without being a vocal opponent of the New Welfare economics, he nonetheless raised serious doubts about the claim that it was impossible to make meaningful interpersonal welfare comparisons.

In this chapter, I review the history of Musgrave's engagement with the idea of community. Musgrave's modest opening—often implicit—for the idea of community provides a basis for an alternative conception of welfare. Musgrave came to realise the importance and originality

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<sup>2</sup> For biographical elements on Musgrave, see Sinn 2009; Read 2016; Sturn 2016b and Desmarais-Tremblay 2017c.

of a social or communal frame only late in his life and left readers with at most cursory remarks to ponder. He never fully articulated a coherent vision of what the idea of community belonging might entail for a democratic theory of the government's budget. Yet, securing an ontological status for societies or communities, besides individuals, allowed him to theorise a larger scope for legitimate public interventions than other economic models of the state allowed, such as can be found in Public Choice.<sup>3</sup> For instance, his *Theory of Public Finance* (1959) accounts for the government's role in income redistribution, both in cash and in kind through the provision of goods to satisfy merit wants. Moreover, the broad foundation of his *Theory*, synthesising different national traditions, is a reminder of the fruitfulness—and an invitation to renew—cross-cultural and interdisciplinary dialogues between economics and other disciplines.

Musgrave (1959) theorised three functions for public expenditures: allocating public goods, redistributing income, and stabilising the economy. Public goods fulfil social wants and merit wants. In Musgrave's subsequent terminology (1969), the government should provide social goods because the private market fails to satisfactorily allocate such goods, given that they are non-rival and non-excludable. Merit wants are individual needs of high importance which should not be left to market allocation. Education, health, and basic nutrition are cases in point for which the government can guarantee a minimal level of satisfaction through transfers in-kind. Such interventions, however, were deemed paternalistic by many economists, and the concept of merit wants was rejected by economists such as Charles E. Mclure and James M. Buchanan who thought Musgrave should have been more careful to respect individual preferences in his theoretical construct. Musgrave acknowledged that the provision of merit goods violated the norm of consumer sovereignty, but he needed this concept to build a comprehensive and realistic theory of the public sector; the concept of social or collective goods would not be sufficient. In other words, the practical problems faced by governments and their administrations could not be solved by relying exclusively on

<sup>3</sup> On the contrasting visions of the state of Musgrave and James M. Buchanan, see Musgrave and Buchanan, 1999. For further references, see also Desmarais-Tremblay 2014. For elements of a history of Public Choice, see Medema 2000.

information from individual subjective preferences. For instance, governments do behave paternalistically, and Musgrave thought it was not always a bad thing, considering the high level of poverty prevalent in the postwar United States (Desmarais-Tremblay 2017a).

Musgrave was of two minds about the status of merit wants in his normative theory of the public household. The normative underpinnings of the concept were not clearly formulated in his *Theory* (1959), which led to a long debate about the nature of merit wants (or merit goods) and how they could be justified in modern public finance (Desmarais-Tremblay 2019). Late in his life, Musgrave provided what he came to see as the most appropriate explanation of the provision of merit goods:

[C]onsider a setting where individuals, as members of the community, accept certain community values or preferences, even though their personal preferences might differ. Concern for maintenance of historical sites, respect for national holidays, regard for environment or for learning and the arts are cases in point. Such acceptance in turn may affect one's choice of private goods or lead to budgetary support of public goods even though own preferences speak otherwise. By the same token, society may come to reject or penalize certain activities or products which are regarded as demerit goods. Restriction of drug use or of prostitution as offences to human dignity (quite apart from potentially costly externalities) may be seen to fit this pattern. Community values are thus taken to give rise to merit or demerit goods. The hard-bitten reader regards this as merely another instance of fashion which may be disposed of accordingly. But such is not the case. Without resorting to the notion of an 'organic community', common values may be taken to reflect the outcome of a historical process of interaction among individuals, leading to the formation of common values or preferences which are transmitted thereafter (Musgrave 1987).

The goal of this chapter is twofold. First, it aims to understand how Musgrave came to propose this 'communal' reading of merit goods in his *New Palgrave* entry of 1987. Musgrave gave this direction to the concept despite the attempts by many economists to justify merit goods in an extended welfarist framework accounting for information asymmetries, irrationality, and psychic externalities. Second, this chapter aims to reconstruct the place that collective concepts play in Musgrave's normative theorisation of the public sector in order to unlock its (often implicit) criticism of standard welfare economics. This chapter follows Musgrave's interaction with the idea of community during three periods of his career. During the early years, he was much influenced by the German economic tradition, as reflected in his 1937 dissertation. In the second part of his career—from the fifties to the early seventies—

Musgrave rose to prominence in the academic community and in policy circles. Although he rarely explicitly criticised the mainstream methodological perspective, he nevertheless held that the state (and not the individual) was the correct vantage point to deal with two problems in particular: fiscal policy and the distribution of the tax burden according to ability-to-pay. I take this as an implicit epistemological commitment to a notion of the collective as not being reducible to individuals. Then, in the seventies, important philosophical works by Harvard professors, as well as the responsibility for a new graduate seminar on ‘Economy and Society,’ provided Musgrave with an opportunity to revisit the social and philosophical foundations of economics, as I discuss in the third section. In the last section, I present Musgrave’s mature comments on merit goods.

## 1. The German Roots

Musgrave’s dissertation, defended at Harvard in 1937, synthesised different traditions in public finance. He attempted to re-conceptualise the burden of taxation as a *net* burden to account for the positive effect of governmental expenditures. Musgrave put forward a ‘rational model of the public economy’ composed of rules to be followed by the budget planner. For Musgrave, the public economy and the market economy were particular economies, part of the larger national economy. This way of conceptualising economic relations had been typical of nineteenth century German thought and went back at least to Karl Heinrich Rau (on which see Tribe, 1988, 195). It found a very developed expression in Gustav Schmoller’s *fin de siècle* exposition. For Schmoller, the National economy (*Volkswirtschaft*) related to the collective, like the nation, society, or the state (Schmoller 1900, 10). He saw the national economy as a system of economic relations dominated by the spirit of the people and embedded in the social (*gesellschaftlichen*) life (ibid., 18-19). In other words, the national economy was structured by the institutions of the whole community.

What could constitute the model for the public economy? In his dissertation, Musgrave (1937, 76) suggested that the public economy was ‘the economy of the community’. This point had been made by Hans Ritschl whose 1931 book Musgrave (1937) discussed at length. Ritschl defended a community-based view of the state, but for an economic and fiscal theory,

distancing himself from nineteenth-century idealistic philosophy. He argued that “the principle of social cohesion in the State is not that of society, but of community” (Ritschl 1931, 234). Ritschl explicitly borrowed Ferdinand Tönnies’ conception of community (*Gemeinschaft*) and used it as a basis for his theory of the state. In his famous essay, Tönnies (1887) contrasted the organic kin-based relationships of the community with the artificial and interest-based interactions of the society (*Gesellschaft*). The natural bond of love in a family was progressively extended to communities of places, such as neighbourhoods and towns, but they were of a structurally different kind from the instrumental interactions of individuals in civil society. For Ritschl, the community of reference for an economic theory of the state was, unsurprisingly, the nation. Musgrave always repudiated the organic view of the state (see 1937, 49; 1959, 87).<sup>4</sup> Yet, through this German literature, he was exposed early on to radically different conceptions of the relations between individuals, society, community, and the state from the mainstream British and American ones.

Musgrave’s (1937, 73) model of the public household aimed at achieving ‘optimum satisfaction of wants with given scarce resources’. Once again, the idea that the purpose of an economy is to satisfy wants was commonplace in German economics by the middle of the nineteenth century (Tribe 1988, 149). Following Emil Sax (1924), Musgrave assumed that there were individual wants and ‘social wants proper’. From the point of view of the state, both types of wants had to be homogenised in order to plan public expenditures. For Musgrave, optimal planning required that wants be satisfied in the order of their intensity. Moreover, the public economy being a complement to the market economy, the planner had to arrange fiscal processes to minimise disturbances with the satisfaction of wants by the market (Musgrave 1937, 76). The ‘social wants proper’, or collective wants, posed for Musgrave the problem of calculating the benefits that individuals derived from public expenditures because benefits could not be divided.

<sup>4</sup> Raised in a liberal and cosmopolitan family of Jewish background, Musgrave would not have been enthusiastic about the strongly nationalistic flavour of some passages of Ritschl’s text (e.g. p. 234).

Rau was one of the first modern exponents of the idea that economic activity is first and foremost a matter of satisfying human needs by the consumption of material goods. By extension, he also postulated that the state had its own needs, the satisfaction of which became the object of the public economy (*öffentliche Wirtschaftslehre*, or *Staatswirtschaftslehre*) (Rau 1837, 2). Towards the end of the century, Adolph Wagner refined the argument by postulating communal needs (*Gemeinbedürfnisse*) rather than needs of the state. Communal needs were differentiated from simple individual needs, but in the end, they were also felt by individuals. They resulted from the social nature of human life (Wagner 1892, 270 ff.). Some arose from the conditions of life in natural communities, while others resulted from life in larger groups. Examples of such communal goods were public hygiene facilities and transportation infrastructure, especially as urban density increased with the division of labour. Wagner argued that communal provision of these goods had to be achieved by coercive organisations like the state or local authorities because the market could not satisfy them properly. Wagner observed a secular growth in public expenditures that reflected the political and social evolution of western nations. The state was thereby partaking in a civilisation process by providing goods and services that promoted the physical, moral, intellectual, and religious interests of the nation (*ibid.*, p. 369). Hence, for Wagner, the explanation of collective wants mostly followed the history of communities.

The ‘communal needs’ of Wagner and the ‘collective needs’ of Sax were called social needs by Musgrave (1937). Besides, Musgrave remarked that governments were also providing goods to satisfy *individual* wants that were considered especially important from a *social* point of view (*ibid.*, 336, 348). In order to compare the benefits of public expenditures for the satisfaction of individual and social wants, one had to assume a ‘common denominator’ and allow for the construction of a ‘social value scale’ (*ibid.*, 349).

Thus, Musgrave’s economic model of the state adopted a social point of view, one that was not reducible to the summation of individual values. The construction of a social value scale to prioritise public expenditures required a comparison of the social urgency of different individual needs. Following Arthur Cecil Pigou (1932), Musgrave adopted an objective

conception of social welfare that did not shy away from interpersonal comparisons of welfare, at least as a ‘working hypothesis’:

The capacity to enjoy benefits is after all but part of the general nature of ‘man.’ It being the generally accepted procedure to define certain general characteristics of men, there is no reason why no *typical* degree of intensity for the enjoyment of benefits could be assumed (Musgrave 1937, 274 n. 2).<sup>5</sup>

Musgrave assumed that the economist and the budget planner could rely on social and political knowledge about the national community to which the model would be applied. Information about socially important needs was not something that can be directly found in the world. It required a thorough sociological analysis:

The sociological problem of the theory of the model economy in turn consists of explaining how and according to what standards this system of relative wants is formulated: Its actual content will at any given time depend upon the entire complex of cultural, political and social forces prevailing. No consideration can here be given to this aspect of the problem, but it is to be emphasised that even in the theory of the model economy the sociological sector of the problem forms an essential part (Musgrave 1937, 77).

In a Weberian frame of mind, Musgrave argued that political factors can explain a deviation of actual practices from the rational model, such as traditionally oriented action:

Public Economy [...] is in its rational execution limited by a variety of institutional factors: historical, though on economic grounds ‘unrational’ institutions are maintained for the sake of tradition; the conduct of the revenue-expenditure process is affected by constitutional rules concerning the power to tax or the power to spend in certain fields of government endeavour, et cetera (Musgrave 1937, 71).

To put it differently, in his dissertation, Musgrave does not provide a welfarist account of the revenue-expenditure process of the public economy. He does not think that a universal mapping of individual subjective preferences into a social value scale (later named social welfare function) could in itself determine which goods should be provided by the state, to whom they should be made available, nor who should pay for them. Methodologically, politicians take decisions in a given institutional setting, they have their own agency and they make judgements based on qualitative social information.

<sup>5</sup> On the objective conception of welfare, see Cooter and Rappoport (1984).



In his first paper, published twelve years after Musgrave's dissertation, James M. Buchanan (1949) argued that fiscal theories could be classified as either 'organismic' or 'individualistic'. According to Buchanan, an individualistic theory of the state could not accept vague terms such as 'social welfare'. Only an organismic approach could assume that the state was a separate decision-making unit. Musgrave's approach avoided this strict dichotomy since it rejected any organic view and assumed that the community was composed of individuals the welfare of whom was the ultimate objective of policy, yet it relied on social value scales. In these social scales, stress should be put on the *social* basis.

In a nutshell, with the teaching he received in Munich and in Heidelberg, as well as with the literature he engaged with while working on his dissertation at Harvard, Musgrave was receptive to the importance of the social dimension of life, how it played out historically and how it impacted economic questions. To some extent, it reflected on his conceptualisation of the problem of the public budget, although the concrete implications were not spelled out in his dissertation.

## 2. The *Theory of Public Finance* (1959) and the cold war era

After teaching as an instructor for a few years at Harvard, Musgrave was recruited in 1941 by the research department of the Federal Reserve, where he spent the war years. In the 1950s, he wrote his magnum opus while at the University of Michigan. At the same time, he participated in fiscal expertise missions in Colombia and in Germany, as well as providing behind-the-scenes advice on tax policy to Democratic presidential candidate Adlai Stevenson. This practical experience must have influenced his views of public finance problems, although it is hard to measure its impact in *The Theory of Public Finance*, which he completed in 1958. Musgrave wanted to move back to the East Coast, and a few months after the publication of his book, he accepted a position at Johns Hopkins, where he stayed for a brief time before moving to Princeton and then back to Harvard in 1965.

The intellectual space for criticising methodological individualism and the norm of consumer sovereignty was very limited in the United States during the cold war. Ideas of social planning

and community-belonging would have been suspicious to many economists. Already during World War II, Friedrich Hayek had argued that invoking communal needs could only be a means for the ruling elite to impose their preferences on the community (Hayek 1944, 106). While organic visions of society were especially unpopular in the postwar period, economists, among other intellectuals, could appeal to a broad liberal consensus (Forrester 2019, xx).

The spectrum of social and psychological foundations for economic theory narrowed, thanks in part to the rise of mathematical formalism. Arrow's impossibility theorem frontally attacked the idea that an extended society could produce a rational social choice that would be compatible with (his reading of) the normative principles of liberalism. His framing of the problem already reduced social choice to a mechanical aggregation of individual preferences, casting out any conception of a 'shared social world' (Amadae 2003, 119). A few years later, Buchanan and Tullock (1962, 19 ff.) argued that the self-interested model of human agency should be applied in all spheres of life, in particular in regard to political decision-making. Even if Buchanan and Tullock's radical individualism did not convince all economists in the 1960s, they contributed to the demise of thick conceptions of political agency in social sciences. In the 1960s, the Vietnam war, racial unrest and student protests brought to light increasing cultural divisions in American society (Cherrier and Fleury, 2017). Appealing to shared values would increasingly sound optimistic, if not disconnected from the real world. The cumulative effect of these cold war economic theories was to put forward a reduced vision of the polity as a mechanical aggregation of individual self-centred preferences. In other words, with respect to the ideal types of Tönnies (1887), the cold war rational choice view of man was the triumph of *Gesellschaft* over *Gemeinschaft* and its conceptual extension to all collective life.

In this context, it is not surprising that Musgrave did not refer to a substantial notion of community throughout the major part of his career. Without a broad consensus on values, it is difficult to convincingly talk about the importance of community life. Yet, I show how an *implicit* idea of a community, or society, was still central to his specific approach to public finance. I focus on his *Theory* (1959) because it is the theoretical matrix through which we can read Musgrave's work from the 1950s to the end of this life. As a grand synthesis of different

traditions, Musgrave's *Theory* combined elements of new welfare economics with utilitarian calculus (old welfare) and other norms of liberal democracy. The three branches of Musgrave's theory of the budget have something to do with the notion of community.

First, the stabilisation branch, which dealt with fiscal policy to guarantee full employment, price stability, and growth, conceptualised the economy using a Keynesian framework. It dealt with macroeconomic aggregates that were not reducible to individual variables. Variables such as the propensity to consume were attributes of a national community.<sup>6</sup>

Second, the redistribution function of the budget was meaningless without at least an implicit understanding of a community of reference. The conceptual separation of public goods allocation and income redistribution allowed Musgrave to demarcate the legitimate application of two funding principles. Contrary to what he argued in his dissertation, Musgrave now held that social (public) goods could be provided according to individual demand, thereby respecting the benefit principle.

Third, the distribution branch secured the socially desired distribution of income by taxing individuals according to their ability-to-pay. For Musgrave, there was no optimum level of redistribution; it depended on the 'accepted mores' in the society of reference and how they were revealed in the political process. In other words, redistribution was not Pareto-improving and the government planners had to make decisions on the distribution of the tax burden based on their understanding of the social views held by the citizens. Musgrave discussed at length different interpretations of the idea of equity. According to his own terminology, justice in taxation required horizontal equity, that is, everyone must be treated equally by the taxman irrespective of how his/her ability was measured. If income was the accretion index, then it meant treating individuals irrespective of the sources of their income.<sup>7</sup>

<sup>6</sup> Fiscal policy and debt policy were always part of Musgrave's public finance, but as the field of 'public economics' emerged in the 1970s, it restricted itself to microeconomic problems of the public sector. On Musgrave's first contact with fiscal policy at Harvard, see Desmarais-Tremblay and Johnson (2019).

<sup>7</sup> For a genealogy the concept of horizontal equity, see Desmarais-Tremblay (forthcoming).

In addition, the budget planner needed to implement an interpretation of vertical equity, that is, how differently unequal incomes would be treated. In other words, it must provide arguments for the proportionality or the level of progressivity of the fiscal structure. Here Musgrave followed the subtle refinements of the discussion on equality of sacrifice which culminated in Pigou (1928). Musgrave acknowledged the problematic nature of interpersonal comparisons of utility in the discussion on the fiscal burden as a sacrifice to share between members of the political community:

This assumption is basic to a subjective view of the ability-to-pay doctrine. Yet it is an assumption generally rejected by the 'new' welfare economics. If such rejection is valid, the entire concept of equal sacrifice becomes so much nonsense and must be discarded—lock, stock, and barrel. I hesitate to go this far. While we cannot assume that the utility schedules of individuals are known, the new welfare economics may have gone too far in its categorical rejection of interpersonal utility comparisons. Such comparisons are made continuously, and in this sense have operational meaning. Surely, there is such a thing as utility from the receipt of income. Evidence on measurable characteristics of people—physical, mental or emotional—lends credence to the assumption that there is a fair degree of similarity among individuals living in a given society. (Musgrave 1959, 109).

As long as utility was a subjective attribute, it could hardly be compared between two individuals, but this epistemic problem was avoided if one postulated a 'social value'. According to Musgrave, in a democracy, such values had to be 'traced to the preferences of the individuals' through a political mechanism such as majority, plurality, or point voting (*ibid.*). In the 1950s, Musgrave was still using utilitarian tools. Therefore, as an objective measure of welfare, he reiterated the idea of his PhD thesis of a social utility of public expenditures schedule. Combined with a social disutility of taxes schedule, the two curves could, in theory, determine a socially optimum level of public expenditures and a corresponding distribution of the fiscal burden provided by the tax formula (based on the constructed social income utility schedule) (*ibid.*, p. 113). Thus, in the 1950s, Musgrave's theory of public goods was now welfarist according to the first definition, but it violated the second definition of welfarism to the extent that it relied on information beyond subjective ordinal preferences (see the introduction to this volume).

Third, merit wants are better understood with respect to a community of reference. Although this fact was only explicitly acknowledged by Musgrave decades later, one can find hints of it in the first exposition of 1959. Musgrave argued that the allocation branch should generally provide public goods according to individual preferences following the benefit principle, but he conceded that not all public services respected consumers' sovereignty: merit goods were 'sensible' exceptions to a 'position of extreme individualism' (ibid., p. 14). Musgrave suggested that a direct registering of individual preferences was not and should not be the political norm of democracy. One had to make room for the 'role of leadership': 'While consumer sovereignty is the general rule, situations may arise, within the context of a democratic community, where an informed group is justified in imposing its decision upon others.'<sup>7</sup> (ibid.) In responding to Gerhard Colm's criticism of his conversion to an individual preference-based view of social goods, Musgrave conceded that one should not forget the 'political character of the budget process and the essentially social nature of its objectives' (ibid, p. 88).<sup>8</sup> Musgrave recognised that individuals are influenced by their social environment when deciding which goods to support publicly:

[T]he voter's attitudes and preferences may be conditioned by his image of the good society and by influences extending far beyond matters of his immediate environment. His choices may be determined by what he considers altruistic motivations rather than by the self-interest in the narrower sense that underlies typical consumer choices in the market (Musgrave 1959, 88).

Throughout these writings, Musgrave used community and society as synonyms. He had a modern understanding of the latter term influenced by Max Weber as a generic group of people sharing institutions, historically and geographically located. Moreover, the society was ultimately responsible for fiscal decisions which entailed a trade-off between efficiency and equity, for instance when choosing between different tax instruments (ibid, 159).

<sup>8</sup>A German *émigré* who was influential in Washington policy circles, Colm rejected the Samuelson-Musgrave individualistic approach to social/collective goods. In other words, Colm refused to conceptualise the government responsibilities in terms of individual benefits. Musgrave might have coined the concept of merit goods partially as a concession to the views of his senior colleague and friend. See Desmarais-Tremblay, 2017a

Musgrave added that the higher the social cohesion in a country, the less arbitrary such collective decisions by majority vote would be (*ibid.*, 128).

Upon reviewing Musgrave's *Theory* which formed the matrix for his thinking throughout his career, we found an implicit use of collective notions that were not reducible to individuals, at least at the level of an economic theory of the government's budget. Even if Musgrave did not yet argue for the importance of community belonging, his use of collective notions went beyond strict methodological individualism.

### 3. The Revival of Moral Philosophy and Musgrave's 'Economy and Society'

Musgrave's late remarks on merit goods and the idea of community were influenced by the revival in moral and political philosophy which became visible in the early 1970s. In their quest for the foundations of moral thinking that would be compatible with modern social sciences, philosophers provided intellectual tools with which to criticise welfare economics. From 1967 onwards, a group of American philosophers, lawyers and political theorists which included John Rawls, Robert Nozick, and Michael Walzer gathered once a month on the East Coast under the heading of the Society for Ethical and Legal Philosophy. Although they had quite contrasting views, members of the Society were united by their rejection of utilitarianism and a commitment to save moral questions from the subjectivist and relativistic perspective that had been dominant for part of the century (Nagel 2013; Forrester, 2019, 40). In fact, logical positivism, and its empiricist cousin, emotivism, had already started to decline in philosophy departments after World War II (Forrester 2019, 4). Yet, they continued to form the—often implicit—philosophical backbone of economists' view of science at least until the 1970s (McCloskey 1994, 3 ff.; Davis 1990).

The reception of Rawls's *Theory* by economists focused mostly on some technical points such as the maximin rule and the index of primary goods (see Roemer 1996, 163 ff.; Hawi 2016, 291 ff.). The fact that Rawls's argument relied on a rational choice framework and that he

borrowed many elements from economic theory helped to start a fruitful dialogue between economists and philosophers on the normative basis of society in a democracy<sup>9</sup>.

By mid-decade, the influence of Rawls on economists was already substantial. It can be perceived, for instance, in the way Robert D. Cooter framed the problem he dealt with in his PhD dissertation at Harvard, a dissertation that was supervised by Jerry Green and none other than Musgrave and Rawls themselves. Cooter criticised the narrow psychological, sociological and moral foundations of economic theory:

[W]elfare economics has limited itself to identifying Pareto efficient changes, which is a narrow, stifling concept of rational ethics. This arbitrary demarcation of economics has been maintained by dedicated theorists whose motive is to preserve the scientific rigor of the subject, and by vulgar technicians who curry favor by apologizing for whatever those in power wish to do (Cooter 1975, ii).

Cooter argued that welfare economics was ‘captive of a defunct philosophical theory, namely positivism and its cousin [behaviorism]’. In a prophetic statement, he remarked that in recent years ‘the conditions have become favorable for writing good moral philosophy. As the various ethical schools recover their vitality, welfare economics will be the beneficiary.’ (ibid., iii). For Cooter, ‘the proper foundation of welfare economics is a characterization of the fundamental principles embodied in the moral and legal framework’.<sup>10</sup>

A year later, Musgrave started to teach a graduate seminar to Harvard PhD students titled ‘Economy and Society’ in which he discussed and contrasted various sociological and

<sup>9</sup> Even before the publication of the *Theory of Justice*, Amartya Sen (1970b, pp. 187-200) had discussed the relevance of Rawls’ work for solving the economists’ problem of interpersonal comparison of welfare. Sen (1970a) was one of the first to address systematically the problem posed by Robbins for collective choices. ‘Interpersonal Aggregation and Partial Comparability’ was published just after Sen visited Harvard, where he taught a graduate seminar together with Arrow and Rawls. In his entry on merit goods, Musgrave (1987) quoted Sen’s famous essay ‘Rational Fools’ (1977). Sen’s criticisms are beyond the scope of this chapter. Still, one can note that for Sen (1977, 344), groups and communities provide a focus for commitments.

<sup>10</sup> Before embarking on his PhD, Cooter read Philosophy, Politics, and Economics at Oxford.

philosophical underpinnings of economics.<sup>11</sup> The course was named in honour of Max Weber, whom Musgrave greatly admired. Part of the course was dedicated to methodological issues, addressing for instance Weber's position on value judgements and on objectivity in the social sciences. Moreover, Musgrave also presented the fundamentals of Weberian sociology. He stressed how Weber conceptualised society as a multidimensional social structure. Economic phenomena had to be understood in historical processes, yet individual action was basic. In this respect, Weber (1922) identified different types of individual social action, of groupings, and of relationships. Among the latter, Weber presented a modified version of the typology of Tönnies as communal versus associative relationships—one which Musgrave mentioned in his course.<sup>12</sup> The seminar provided Musgrave with a opportunity to revisit some authors of his youth which he had stopped referring to in the central part of his career.

According to the first course syllabus for 1976, Musgrave planned to devote the largest part of the semester to the philosophical underpinnings of society, including an assessment of 'recent formulations' of more or less classical doctrines by Rawls (1971), Nozick (1974), and Unger (1975). Among his three Harvard colleagues, Musgrave was definitely more sympathetic to Rawls. Nozick and Unger presented extreme visions: a rigorously individualistic Lockian political philosophy on one side, and a Hegelian theory of organic groups culminating in an appeal to God on the other side.

In what follows I highlight passages from texts that Musgrave must have read since he assigned them to his students of the Economy and Society seminar. Musgrave did not leave annotations of his readings, so it is impossible to assert with certainty to what extent he was influenced by them. These passages, together, suggest a genealogy of Musgrave's later remarks on merit goods (next section).

<sup>11</sup> Syllabus for the following semesters, as well as some reading notes and reprints of articles, are kept in the Richard A. Musgrave Papers at Princeton University (Box 7, sub-box 'Social Philosophy and 2080'): S1976, S1977, F1978, F1979, S1981. Musgrave retired from Harvard in 1981.

<sup>12</sup> 'Notes on Weber'. April 18 1977, 'Economics 2080', Box 7, RAM Papers.



Rawls's envisioned society as a 'cooperative venture for mutual advantage'. One of Rawls's challenges was to make room for the value of community in human life, but from an individualistic basis: 'The essential idea is that we want to account for the social values, for the intrinsic good of institutional, community, and associative activities, by a conception of justice that in its theoretical basis is individualistic.' (Rawls 1971, 264).<sup>13</sup> In the third part of the book, Rawls formulated a theory of the development of the sense of justice which drew from Jean-Jacques Rousseau, Immanuel Kant, John Stuart Mill, Jean Piaget, and notably his Harvard colleague, Lawrence Kohlberg. Between the first stage of the morality of authority and the highest stage of the morality of principles, Rawls discussed the morality of association. Through participation in a web of associations, humans developed a sense of the importance of friendship, trust, and fairness, all of which are important for the stability of society as a cooperative venture: 'Thus we may suppose that there is a morality of association in which the members of society view one another as equals, as friends and associates, joined together in a system of co-operation known to be for the advantage of all and governed by a common conception of justice.' (ibid., p. 472). For Rawls, a sense of justice came normally with being human: 'a person who lacks a sense of justice, and who would never act as justice requires except as self-interest and expediency prompt, not only is without ties of friendship, affection, and mutual trust, but is incapable of experiencing resentment and indignation' (ibid., p. 487).

From this anthropological viewpoint, Rawls condemned the 'simplifying motivational assumptions' of the 'so-called economic theory of democracy' (ibid., p. 492). Referring to Buchanan and Tullock and to Downs, among others, Rawls remarked that the 'constraints of a competitive market' cannot be applied in the case of constitutional procedures:

<sup>13</sup> In his undergraduate thesis on the meaning of sin and faith, Rawls argued that morality was located in interpersonal human relations: 'Christian morality is morality in community, whether it be the earthly community or the heavenly community. Man is a moral being because he is a communal being.' (Rawls [1942] 2009, 122). For the young Rawls, the plural associations to which persons belonged (family, church, firm) characterised their moral life (Bok, 2015). Rawls tossed aside these ideas in his mature work, but, ironically, his communitarian critics (see below) returned to them in the 1980s (Forrester 2019, xvii, 241).

The leading political actors are guided therefore in part by what they regard as morally permissible; and since no system of constitutional checks and balances succeeds in setting up an invisible hand that can be relied upon to guide the process to a just outcome, a public sense of justice is to some degree necessary. It would appear, then, that a correct theory of politics in a just constitutional regime presupposes a theory of justice which explains how moral sentiments influence the conduct of public affairs. (ibid., p. 493).

In 1977, Musgrave reorganised his lecture on the philosophical underpinnings around four traditions: the utilitarian tradition, the Kantian tradition, the contractarian tradition, and the communal tradition. The first one was subdivided in philosophical works (Bentham, Mill, Sidgwick) and welfare economics (Edgeworth, Pigou, Bergson and Samuelson). The second one comprised Kant and Rawls; the third one, Locke, Nozick and Buchanan. The communal tradition was presented as a utopian strand of thought embracing Rousseau, Hegel and Marx. The precise impact of these readings of the ‘communal tradition’ on Musgrave’s idea of community is impossible to identify, since he did not leave detailed notes. Whether Musgrave was reading these classics for the first time or not, they constituted rich intellectual resources to challenge the standard neoclassical conceptualisation of the relation between individuals, society and the state.

#### 4. Musgrave’s Late Writing

In the 1970s, Musgrave wrote an undergraduate textbook on public finance with his wife and former PhD student, Peggy B. Musgrave.<sup>14</sup> In the second edition of their textbook, Musgrave and Musgrave (1976) presented a standard interpretation of merit goods that extended the welfarist framework to account for cases of misinformation, irrationality, and interdependent preferences (Desmarais-Tremblay, 2019). In a different part of the book where they explained ‘fiscal politics’, the authors introduced a discussion on ‘the community interest’. Rejecting out of hand the idea of an organic group and that of a dictator, Musgrave and Musgrave (1976) entertained the hypothesis that there might exist a community interest beyond the addition of individual interests. Such an interest might emerge through social interaction:

<sup>14</sup> British born, Peggy Musgrave (1924-2017) was herself a distinguished public finance scholar, specialised in the taxation of international investment.

[B]y virtue of sustained association, people come to develop common concerns. A group of people, for instance, share a historical experience with which they identify, thereby establishing a common bond. Individuals will join in defending the borders of ‘their’ territory or to protect the beauty of ‘their’ countryside. At the same time, it is difficult to extend this existence of common concern to the contention that resource allocation should, generally speaking, be based on consensus rather than on individual preference. X and Y may join in defending ‘their’ territory even though each wishes to make an independent choice regarding his consumption of apples and oranges (1976, 122).

Musgrave and Musgrave also argued that accounting for a community interest might call for a change of perspective on social interaction, substituting a competitive view for a ‘cooperative approach’ (123). They claimed that inter-individual co-operation toward the realisation of common goals might even be ‘more conducive to human dignity and fulfillment’ (ibid.). Musgrave and Musgrave reminded their readers that ‘economic welfare narrowly defined, after all, is not the only objective in life; and efficiency (as a criterion for rational action) should be interpreted to include all objectives that matter’. To put it differently, economists should account for the fact that individuals might have non-selfish motivations and a realistic theory of fiscal processes should make room for other values that individuals might want to defend through public means. Contrary to the welfarist interpretation, this interpretation of merit wants did not appear in the first edition of their textbook, thus indicating a change of mind over the 1970s. Yet, the consequences of this short discussion of a ‘cooperative approach’ for fiscal theory were not developed by Musgrave and Musgrave in the 1970s.

In the third edition of the book, the newly renamed ‘communal wants’ were discussed side by side with ‘merit wants’ (Musgrave and Musgrave 1980, 83-86). Compared to the previous edition, the authors added the following comment on the idea of community interest:

This community interest then gives rise to communal wants, wants which are generated by and pertain to the welfare of the group as a whole. [...] [B]y virtue of sustained association and mutual sympathy, people come to develop common concerns. A group of people, for instance, share an historical experience or cultural tradition with which they identify, thereby establishing a common bond (84).

Their conclusion echoed a point already acknowledged by Musgrave (1959): the ‘individual preference approach does not tell the entire story’ (Musgrave and Musgrave 1980, 84).

That communal wants could be a type of merit want was only explicitly spelled out by Musgrave in his entry on ‘merit goods’ for the *New Palgrave Dictionary of Economics* in 1987. One reason for this late integration of the two concepts might be that from the 1960s onwards, merit *wants* came to be called by the goods which satisfy them—merit *goods*. This transition suited well the evolution of social wants to social goods, but not the notion of merit wants, as Musgrave (1986, 39) eventually admitted. Communal wants arose because of human interaction. They capture the needs of social beings, not specific commodities. If the concept of merit goods was more fruitful in the discussion on ‘fair shares’ of primary goods, of ‘higher values’, and of ‘community values’, as Musgrave (1987) claimed, then it was more appropriate to talk of merit *wants*. Going back to the label of *wants* brought the concept closer to the newly (re)discovered idea of ‘community preferences’, or ‘communal wants’.

Thus, contrary to the 1960s and the 1970s when Musgrave tried to minimise the relevance of merit wants, from the 1980s onwards, he started to commend more and more his concept because he found better philosophical underpinnings. Moreover, the communal wants rationale was a positive argument to support public provision of some goods and services; it did not rely on a negative view of human agency or markets such as the market failure argument. Rather than relying on a qualification, or an exception to the norm of consumer sovereignty, it suggested an alternative principle for the allocation of some resources (Musgrave 1987).

Besides the philosophical opening of the 1970s, another reason for Musgrave’s renewed interest in his concept of merit wants might be the ‘swing of the pendulum’ towards more negative attitudes to the government among economists in the 1970s and eventually the rise of neoliberal politics in the 1980s. In justifying extended transfer programmes, the concept of merit goods could serve as a reminder of the plural functions of government in a democratic society. As Samuelson later remarked: “Since about 1980, under the influence of libertarians like Milton Friedman, the quasi-paternalistic “merit wants” of Musgrave have too often become forgotten.” (Samuelson *in* Atkinson et al. 2008, 167).

Reiner (2011, 302) makes a similar point to explain the contributions of Michael Walzer and Michael Sandel to the so-called communitarian doctrine in political philosophy. He argues that they have to be understood as a response to the rise of Reaganomics in the 1980s. There is a striking proximity between Musgrave's ideas on community and communitarian philosophy. Each in their own way, Charles Taylor, Michael Walzer, Alasdair MacIntyre and Michael Sandel have criticised the individualistic basis of Rawlsian liberal egalitarianism. They insisted on the centrality of community ties in human life. Their different anthropological starting point led to a different vision of the polity, one that did not shy away from a substantial conception of the common good. Whereas defending the importance of communities could have passed as conservative talk in the postwar period, in the neoliberal politics of the 1980s, it could be used to defend state intervention. There is no evidence that Musgrave was knowledgeable about this communitarian literature when he reframed his ideas on merit goods in the 1970s and early 1980s.<sup>15</sup> Yet, in the 1970s Musgrave read Unger, who was influenced by Hegel, just as the other communitarian critics of philosophical liberalism (Gutmann 1985, 308). In the end, the communitarian critiques probably arrived too late on the scene for Musgrave to benefit from them in his reformulation of merit wants as communal wants.

After his retirement from Harvard in 1981, Musgrave moved to California, where his wife was teaching. During the 1980s and 1990s, he wrote a few history of economics papers, as well as more personal retrospective accounts. In contrasting German and Anglo-American public finance, he explicitly distinguished issues of 'public goods' in the market failure tradition from 'communal wants' concerns in Finanzwissenschaft:

Membership in the community also implies values and imposes obligations which transcend self-interest. Communal wants and obligations, evidently, are not amenable to ready analysis by the economist's tools as are public goods. It does not follow, however, that Finanzwissenschaft was mistaken in raising the issue of communal concerns, and of motivations which transcend self-interest. Public finance may well have taken too narrow a view by holding that self-interest-based action is all there is. While the state or community 'as such' cannot be the subject of wants, a distinction between the private and communal concerns of individuals

<sup>15</sup> Apart from the fact that Musgrave participated in a workshop in Canberra in 1986 where Charles Taylor presented a paper on 'irreducibly social goods' (Taylor 1990).

cannot be rejected that easily. Nor can the role of communal concern be resolved in the utilitarian frame by allowance for interpersonal utility interdependence. There remains an uneasy feeling that something is missing. The concep[t] of merit wants [...] address[es] this gap, but much remains to be done to resolve the problem of communal wants in a satisfactory fashion. Such remains the case, uncomfortable though the community concept may be to economics, and dangerous though it becomes when abused (Musgrave 1996, 73).

A few years earlier, Musgrave had participated in a conference in Germany organised by Harald Hagemann on German *émigré* economists. In his retrospective account of his youth, Musgrave indicated that a ‘concern with a communal want approach had remained much in the air during [his] Heidelberg years’:

Though non-rival consumption is the core of the public goods problem, it does not follow that self-interested exchange (be it via market or vote) is the only meaningful form of social interaction. Admittedly difficult to define and dangerous to entertain, communal concerns have been part of the scene from Plato on, and my concept of merit goods (applicable to private and social goods alike) was to provide a limited opening for their role (Musgrave 1958 and 1987). Dutiful performance of civil service remains a constructive concept, as does that of responsible public leadership. Though they now tend to be ridiculed, both these alternative modes are essential to make democracy work. Nor are issues of entitlement and distributive justice reducible to principles of exchange, issues which have to be resolved before that mode can be given its role. The broad-based roots of the German tradition, its linkage to the theory of state and to fiscal sociology (Musgrave 1980) helped to provide awareness of these issues, and could have done so quite consistently with a private-want-based theory of public goods (Musgrave 1997, 77).

Hence, for Musgrave communal wants, a type of merit wants, had their place in a broad-based view of the public household. At the expense of a fully consistent and simple view of human agency, Musgrave assumed that individuals in a democracy held different values, some of which needed to be directly supported by public institutions, while others motivate them to work for their self-interest in the market sphere—but this also called for governmental intervention to correct the resulting inefficiencies, for instance by providing public goods.

## Conclusion

Contemplating Musgrave’s long intellectual life has allowed us to identify recurrent themes in his writing. The concept of merit wants that he coined in his middle age acquired an original meaning as ‘community wants’ only in his old age. This late reframing of the problem benefited from a revival of moral and political philosophy in the 1970s, yet it also connected

directly to ideas Musgrave had been exposed to during his formation in Germany and in the United States in the interwar years. In his dissertation, Musgrave (1937) employed the concepts of individual wants and social wants. As the concept of a social/public/collective good acquired its definitive—and restrictive—meaning in the 1960s, a host of legitimate concerns were left out. Musgrave wanted to remind economists about these concerns, which did not fit the narrow category of collective goods. Even many arguments that commentators understood to justify merit goods could be explained by other categories found in the market failure literature. What did not fit were the communal concerns.

More generally, the New welfare economics was a too narrow methodological perspective to achieve the aims of public finance and public economics. As Musgrave remarked: “The “new welfare economics”, by definition, excludes distributional issues, limiting its attention to situations where everybody’s welfare can be raised. Welfare economists thus save their scientific conscience but, alas, are of only slight use in solving policy problems.” (Musgrave 1964, 2). In other words, a comprehensive normative theory of public finance must have a conception of justice that goes far beyond Pareto-efficiency. For Musgrave, the moral dimensions of the public budget could not be derived in the abstract, but had to be related to the values of the social group or community to which the theory would be applied: ‘Distributive justice, as seen by most people, is not divinely preordained but depends on society’s sense of entitlement and fairness’ (Musgrave 1981, 221). Welfare economics could satisfy itself with unrealistic welfarist assumptions, but public finance being an applied field, Musgrave wanted to design a framework that could be used to improve policy decisions and fiscal administration.

Individuals are always the ultimate valuation reference, but social groups or communities need to enter the theoretical framework. This is the message we can extract from analysing Musgrave’s engagement with the notions of community and society. Musgrave did not provide a fully fledged alternative to individualistic welfare economics. Nonetheless, he warned us against the danger of building an unrealistic construction based on isolated individuals. Such a model might be appropriate for a pure market price theory, but it will be insufficient for a theory of the public household. The first proponents of methodological

individualism were conscious of this limitation—one that was forgotten in the middle of the twentieth century. As Schumpeter put it: ‘as soon as we go beyond the limits of the pure theory, the whole thing looks different. For example, in the organization theory and in the sociology in general, individualism would not get us very far’ (Schumpeter 1908, 183). Likewise, Pareto (1898) argued that the *homo economicus* assumption was useful only in pure economics. Yet, pure economics was only a first approximation of complex human behaviour. This behaviour could only be fully apprehended by an extended sociological analysis. To put the matter differently, Musgrave’s message is that a narrow reading of the *Gesellschaft* sociability does not provide wide enough foundations for an economic theory of the state. Two alternatives remain: enlarge the bases of economics, or draw from sociology, law, and from moral and political philosophy, other sources of normativity. Group belonging can be one such source of normativity.



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