

Musgrave and the Idea of Community

Maxime Desmarais-Tremblay

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Human beings live in groups. They share values with other members of their community which they transmit to new members. In turn, these values shape their life 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 many 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 fought throughout his long career attempts to narrow down the scope and the methods of economics.¹ Faithful to the traditions of public finance, he kept a broad view of the economic functioning of the state drawing ideas from corpus 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 New Welfare economics, he nonetheless raised serious doubts about the impossibility of meaningful interpersonal comparisons.

In this chapter, I review the history of Musgrave's connection with the idea of community. Musgrave's limited 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 of a social or communal frame late in his life and left readers with only cursory remarks to ponder upon. 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 of legitimate public interventions than other economic models of the state, such

¹ For biographical elements on Musgrave, see Sinn 2009; Read 2016; Sturn 2016b; Desmarais-Tremblay 2017.

as can be found in Public Choice.² For instance, his *Theory of Public Finance* (1959) accounts for the government's role in income redistribution, both in cash through ability based taxation and in kind through the provision of goods to satisfy merit wants. Moreover, the broad foundations 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. The provision of public goods was intended to satisfy social wants and merit wants. In Musgrave's subsequent terminology (1969), the former wants call for public provision because of the technical failure of the market mechanism to allocate goods that are nonrival and nonexcludable. 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, especially to poor people. Such interventions were deemed paternalistic and the concept of merit wants was rejected by economists 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. Governments do behave paternalistically and Musgrave thought it was not always a bad thing, considering the high level of poverty prevalent in 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 was not clearly formulated in his *Theory* (1959) which led to a long debate about the nature of merit wants (goods) and how

² On the contrasting visions of the state of Richard A. 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.

they could be justified in modern public finance (Desmarais-Tremblay 2016). 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 to understand how Musgrave came to propose this 'communal' reading of merit goods in his *New Palgrave* entry of 1987, despite the attempts by many economists to justify merit goods in an extended new welfare economics framework accounting for information asymmetries, irrationality, and psychic externalities. This chapter follows Musgrave's interaction with the idea of community along 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 raises to prominence in the academic community and in policy circles. He seized few opportunities to be critical of the mainstream methodological perspective. Yet, he adopted the point of view of the state for at least two topics in his work: 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 not reducible to individuals. In the seventies, important philosophical works by Harvard professors, as well as the responsibility of a new graduate seminar on 'Economy and Society' provided Musgrave with an opportunity to revisit the social and philosophical foundations of economics.

1. The German Roots

Musgrave's dissertation, defended at Harvard in 1937, synthesises different traditions in public finance. He attempts to re-conceptualise the burden of taxation as *net* burden to account for the positive effect of governmental expenditures. Musgrave puts 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 are particular economies part of the larger national economy. This way of conceptualising economic relations is typical of nineteenth century German thought and goes back at least to K. H. Rau (on which see Tribe, 1988, 195). It finds a very developed expression in Schmoller's fin de siècle exposition. For Schmoller, the National economy (*Volkswirtschaft*) relates to the collective, like the nation, society, or the state (Schmoller 1900, 10). He sees 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 is structured by the institutions of the whole community.

What should be the model for the public economy? At one point, Musgrave (1937, 76) writes that the public economy is 'the economy of the community'. Hegel (1820) had famously argued that individual freedom is realised in participating in the state in the broad sense of an organic community. Likewise, in the introduction to his *History of the social movement in France*, Lorenz Stein (1850, 95) claimed that the community finds in the personality of the state the unity of its will. In his dissertation, Musgrave extensively discusses the more recent contribution of Hans Ritschl. Ritschl (1931) 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 is explicitly borrowing Tönnies' conception of community (*Gemeinschaft*) and using 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 can progressively be extended to communities of places, such as neighbourhoods and towns, but they are of structurally different from the instrumental interactions of

individuals in civil society. For Ritschl, the community of reference for an economic theory of the state is, unsurprisingly, the nation. Musgrave always repudiated the organic view of the state (see 1937, 49; 1959, 87),³ but by engaging with this German literature, he was exposed early on to alternative conceptions of the relations between individuals, society, community, and the state than will be common in the more individualistic British and American neoclassical economics in the twentieth century.

Musgrave's (1937, 73) model of the public household aims at achieving 'optimum satisfaction of wants with given scarce resources'. Once again, the idea that the purpose of an economy is to satisfy wants is commonplace in German economics by the middle of the nineteenth century (Tribe 1988, 149). Following 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 to satisfy wants in the sequence of their intensity. Moreover, the public economy being a complement to the market economy, the planner had to arrange fiscal processes to minimise disturbance with the satisfaction of wants by the market (Musgrave 1937, 76). The 'social wants proper', or collective wants, posed Musgrave a problem for the calculation of benefits that individuals derive from public expenditures because they could not be divided.

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 consuming 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).

³ Raised in a liberal and cosmopolitan family of Jewish background, Musgrave could not have been very enthusiastic about the strongly nationalistic flavour of Ritschl's text: 'We are all alike born into the community of the nation and the citizenship of the State. The history and fortunes of State and nation are common to us. The images through which we understand this bond all derive from the closest blood ties. The fatherland and the mother tongue make us all brethren together [...] But to the national community belong only the men and women of the same speech, of the same ilk, the same mind. They have in common love of their homeland, of its mountains, woods and rivers, its villages and cities; they have in common the great figures of its past, the same hatred and suspicion of the "hereditary" enemy [*Misstrauen gegen den «Erb»-feind*]' (Ritschl 1931, 234).

Towards the end of the century, Adolph Wagner refined the argument by postulating communal needs (*Gemeinbedürfnisse*) rather than the needs of the state. The communal needs are differentiated from simple individual needs, but in the end, they are also felt by individuals. They result from the social nature of human life (Wagner 1892, 270 ff.). Some arise from the conditions of life in natural communities, as others result from life in larger groups. It is typically the case of public hygiene facilities and transport infrastructure as urban density increases with the progress of 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. He noted (1892, 419) that the public services which satisfied them were available to all without exclusion and that their marginal user costs were very low, but these were not taken by Wagner as defining features of public goods. 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 communities⁴.

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 individuals and social wants, one had to assume a ‘common denominator’ and allow for the construction of a ‘social value scale’ (*ibid.*, 349). This idea is a direct antecedent of the Bergson-Samuelson Social Welfare Function (Samuelson 1947).

⁴ This view was brought to another level by his colleague Gustav Schmoller (1900, 60) who even denied that singling out specific communal wants was of any use for explaining the evolution of political institutions. In other words, Schmoller provided a sociological explanation which denied any specifically economic rationale for the growth of public expenditures.

Thus, Musgrave's economic model of the state adopts a social point of view, one that is 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 Pigou (1932), Musgrave adopts an objective conception of social welfare that does not shy away from interpersonal comparisons of welfare, at least as a 'working hypothesis':⁵

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).

Musgrave assumes that the economist and the budget planner can rely on social and political knowledge about the national community to which the model would be applied. The information about the socially important needs is not something that can be directly fetched in the world. It requires 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).

Much influenced by Weber (1922), Musgrave also identifies political factors that 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).

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 the economic questions. To some extent, it reflected on his conceptualisation

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

of the problem of the theory of the public budget, although the concrete implications are not spelled out in his dissertation. In his first paper published a few years after Musgrave's dissertation, James M. Buchanan (1949) argued that fiscal theories can be classified as either 'organismic' or 'individualistic'. According to Buchanan, an individualistic theory of the state cannot accept vague terms such as 'social welfare'.⁶ Only an organismic approach could assume that the state was a separate decision-making unit. Musgrave's approach avoids this strict dichotomy since it rejects any organic view and assumes that the community is composed of individuals the welfare of whom is the ultimate objective of policy, yet it relies on social value scales. In these social welfare functions, stress should be put on the *social* basis.

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 at the research department of the Federal Reserve in 1941 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 closed doors 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. A few months later, Musgrave wanted to move back East and accepted a position at Johns Hopkins where he stayed only a few years, before moving to Princeton, and then back to Harvard in 1965.

⁶ The idea that social value scale could be used by dictatorial states depriving individual liberty was also advanced by Hayek (1944, 103) : 'We can unfortunately not indefinitely extend the sphere of common action and still leave the individual free in his own sphere. Once the communal sector, in which the state controls all the means, exceeds a certain proportion of the whole, the effects of its actions dominate the whole system. [...] There is, then, scarcely an individual end which is not dependent for its achievement on the action of the state, and the "social scale of values" which guides the state's action must embrace practically all individual ends.'

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 would have been suspicious to many economists. Already during World War II, Hayek argued that invoking communal needs could only be a means for the ruling elite to impose their preferences on the community (Hayek 1944, 106).⁷ 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.) will argue that the self-interested model of human agency should be applied in all spheres of life, in particular in regard to political decision-making. 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. Yet, I will show how an *implicit* idea of a community, or society, was still central to his specific approach to public finance.⁸ I will 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* combines elements of new welfare economics, with utilitarian calculus (old welfare) and other norms of liberal democracy.⁹ The three branches of Musgrave's theory of

⁷ For Popper (1945) a group-based morality could only be a closed-society morality which brings about totalitarianism.

⁸ Musgrave hardly made any reference to the German authors of his youth after the 1930s. Still, while completing his *Theory*, he also worked on a collected volume of European texts in public finance with Alan Peacock that contained, among many others, extracts of Wagner, Stein and Ritschl (Musgrave and Peacock 1958).

⁹ Mongin (2006, 24) made a similar point for public economics in general : 'To make things even more complicated, public economics did not fully endorse the separation of welfare economics into old and new—while critical of both, it also borrowed something from each, and in particular sometimes revived a utilitarian style of evaluation.'

the budget have something to do with the notion of community. First, the stabilization branch which deals with fiscal policy to guarantee full employment, price stability, and growth conceptualise the economy using a Keynesian framework. It deals with macroeconomic aggregates that are not reducible to individual variables. Variables such as the propensity to consume are attributes of a national community.¹⁰

Second, the redistribution function of the budget is 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 can be provided according to individual demand, thereby respecting the benefit principle. The distribution branch, on the other side, secures the socially desired distribution of income by taxing individuals according to their ability-to-pay. For Musgrave, there is no optimum level of redistribution; it depends on the 'accepted mores' in the society of reference, and how they are revealed in the political process.¹¹ Musgrave discusses at length different interpretations of the idea of equity. According to Musgrave's own terminology, justice in taxation requires horizontal equity, that is everyone must be treated equally by the fisc irrespective of how his/her ability is measured. If income is the accretion index, then it means treating individuals irrespective of the sources of their income.¹² Besides, the budget planner must also respect vertical equity, that is how differently unequal incomes must be treated. In other words, it must provide arguments for

¹⁰ Fiscal policy and debt policy have always been a part of Musgrave's public finance, but as the field of 'public economics' emerged in the 1970s, it will restrict itself to microeconomic problems of the public sector. See, for instance, Atkinson and Stiglitz (1980).

¹¹ A few years later, Musgrave dismissed the idea that income redistribution could be justified by the individual altruistic motives (Hochman and Rodgers 1969; Musgrave 1970). This so-called Pareto-optimal theory of redistribution was not a convincing explanation for the bulk of redistribution taking place in western countries.

¹² As Seligman (1926, 226) put it, this idea of equity is basic to the very idea of group membership, especially in club-like groups. In a generic sense, members of the group who identify as such accept that contributions to the expenses of the group have to be shared among the members of the group without being tied to specific advantages accruing to individual members. The underlying social psychology could not be further from the *Logic* of Olson (1965).

the level of progressivity of the fiscal structure. Here Musgrave follows 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:

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).¹³

As long as utility was a subjective attribute, it could hardly be compared between two individuals, but this epistemic problem is avoided if one postulates 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 tied to the utilitarian framework. Therefore, as an objective measure of welfare, he reiterated the idea of his 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).

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

¹³ This last point is close to the view defended by Pigou. See Aslanbegui and Oakes (2015, 182 ff).

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.’ (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; see Desmarais-Tremblay 2017a). 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 uses community and society as synonyms. He has a modern understanding of the latter term influenced by Weber as a generic group of people sharing institutions, historically and geographically located.¹⁴ Moreover, the society is ultimately responsible for fiscal decisions which entail a trade-off between efficiency or equity, for instance when choosing between different tax instruments (ibid, 159). Musgrave adds that the higher is social cohesion in a country, the less arbitrary such collective decisions by majority vote will be (ibid., 128).

3. The Revival of Moral Philosophy and Musgrave’s Mature Reflection

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)

¹⁴ This is far from the meaning of society as civil society common in the nineteenth century.

3.1 The Philosophical revival and Musgrave's 'Economy and Society'

In his undergraduate thesis on the meaning of sin and faith from which this quote is taken, John Rawls exposed the view that morality is located in interpersonal human relations. Musgrave never read this work from Rawls published only in 2009. Yet, it is interesting to note that Rawls, while often depicted as an advocate of individualism in moral philosophy, started as 'a defender of an ideal of ethical community, in which plural associations—the family, the church and the firm—had pride of place' (Forrester 2015, 5; see also Bok 2015). In his *Theory of Justice* (1971), a book that strongly drew Musgrave's attention, Rawls came back to the idea of community in the formation of moral judgement.

In this section, I argue that Musgrave's late remarks on merit goods and the idea of community have been 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 to criticise welfare economics. In fact, emotivism and logical positivism fell into disgrace in the philosophy departments right after World War II (Forrester 2015). Yet, they were widely held views of economists at least until the 1970s (McCloskey 1994, 3 ff.). 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. According to Thomas Nagel (2013), although they had quite contrasting views, members of the Society were united by a commitment to save the moral questions from the subjectivist and relativistic perspective that had been dominant in the twentieth century. They also condemned the narrowness of utilitarianism.

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 (add references). The fact that Rawls's argument relies 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. Musgrave could have been influenced by Rawls's vision of society as a 'cooperative venture for mutual advantage'. One of Rawls's

challenge 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). In the third part of the book, Rawls formulates a theory of the development of sense of justice which draws from Rousseau, Kant, Mill, Piaget, and notably Kohlberg. In between the first stage of the morality of authority, and the highest stage of the morality of principles, Rawls discusses the morality of association. Through participation in a web of associations, humans develop a sense of the importance of friendship, trust, and fairness which is 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 is a normal aspect of human beings: ‘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 point of view, 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:

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).

By the 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 of his PhD dissertation at Harvard co-supervised by Richard Musgrave, Jerry Green and John Rawls.

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 the 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’.¹⁵

The next 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 philosophical underpinnings of economics.¹⁶ The course was named in honour of Max Weber who Musgrave greatly admired. Part of the course was dedicated to methodological issues, addressing for instance Weber’s position on value judgements and on the objectivity in 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

¹⁵ Interestingly, Cooter graduated from Oxford in 1969 with a First in Philosophy, Politics, and Economics (PPE).

¹⁶ Course outlines 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.

of Tönnies as communal vs associative relationships—one which Musgrave mentioned in his course.¹⁷

According to the first course outline for 1976, Musgrave planned to devote the largest part of the semester to 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 Locke-inspired political philosophy on one side, and a Hegelian-inspired theory of organic groups ending by an appeal to God on the other side.

In 1977, Musgrave reorganises his discussion of the philosophical underpinnings around four traditions: the utilitarian tradition, the Kantian tradition, the contractarian tradition, and the communal tradition. The first one is subdivided in philosophical works (Bentham, Mill, Sidgwick) and welfare economics (Edgeworth, Pigou, Bergson and Samuelson). The second one comprises Kant and Rawls; the third one Locke, Nozick and Buchanan. The communal tradition is presented as a utopian strand of thought embracing Rousseau, Hegel and Marx. One can understand the ‘communal’ label attributed to Rousseau because he theorised the establishment of the political community through the social contract, leading to the alienation of individual rights to the common. Besides, Rousseau insists on the pre-political sociability of men. He also identifies the instalment of private property as the foundational act of civil society and the commencement of inequality between men which only a strong republican government could keep in check.

The critical understanding of the contradictions inherent to a market economy will be further developed by Hegel. Musgrave could have found in Hegel the idea that human wants are not a natural given datum, but they are the starting point of economic activity: ‘The particularity

¹⁷ ‘Notes on Weber’. April 18 1977, ‘Economics 2080’, Box 7, RAM Papers. On the difference between Tönnies’ typology and the *Vergesellschaftung* vs. *Vergesellschaftung* relationships in Weber, see Lichtblau (2011).

of the persons includes in the first instance their wants. The possibility of satisfying these wants is here laid on the social fabric, the general stock from which all derive their satisfaction? (Hegel 1830, 237). Their growth is explained by a historical process in which the economic forces generate new wants. This dynamic of want generation was picked up by Marx who connected it to his novel understanding of alienation: ‘every person speculates on creating a *new* need in another, so as to drive him to fresh sacrifice, to place him in a new dependence and to seduce him into a new mode of *enjoyment* and therefore economic ruin. Each tries to establish over the other an *alien* power, so as thereby to find satisfaction of his own selfish need.’ (Marx 1844) Beyond the idea that wants are socially determined, Marx is interesting to our story because he anticipates modern sociology by insisting on the scientific study of social practices in their historical evolution. For doing so, it was important to break from philosophical idealism and focus on the material dimension of life. As he put it in his *Theses on Feuerbach*: ‘Social life is essentially *practical*. All mysteries which mislead theory to mysticism find their rational solution in human practice and in the comprehension of this practice.’ (Marx 1845, 285).

Moreover, Musgrave could have found a positive idea in Hegel’s philosophy: Individual freedom can be salvaged, and even realised to a higher degree by participating in political institutions which compose the state. For Hegel, subjective liberty does not disappear in the state (Hegel 1830, 255). Marx rejected precisely this Hegelian vision of the state. He claimed that the contradictions of civil society cannot be resolved in the state. Even political struggles within the state could not solve the problem of alienation of man’s labour. The state could only represent an ‘illusory communal life’ (Marx and Engels 1846, 295). There is indeed a ‘communal interest’, but it can be only be attended to in a communist society once private property and the state have been abolished (ibid.). In such a society, Marx believed that the distribution principle could be: ‘From each according to his ability, to each according to his needs!’ (Marx 1875, 160). At an abstract level, Musgrave’s egalitarian view was not too far from this famous phrase that Marx borrowed from Louis Blanc.¹⁸ The combined action of the

¹⁸ At least this is what Rawls reckoned. Musgrave (1974) criticized Rawls’ difference principle, arguing that a philosophical theory of justice required a full equalization of welfare by means

allocation branch of his *Theory* to freely provide goods to satisfy merit wants, and the redistribution branch which levies taxes according to individuals' ability is a partial implementation of the *need* principle. 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.

3.2 Musgrave's Late Writing

In the second edition of their undergraduate textbook on public finance, Musgrave and Musgrave (1976) presented a standard interpretation of merit goods which consisted in extending the welfarist framework to account for cases of misinformation, irrationality, and interdependent preferences.¹⁹ 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) entertain the hypothesis that there might exist a community interest beyond the addition of individual interests. Such an interest might emerge through social interaction:

[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 argue 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 claim 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 remind their readers that 'economic welfare narrowly defined, after

of what we now call endowment taxation. Rawls (1974) replied that Musgrave's view was for a society beyond justice such as Marx's communism.

¹⁹ This interpretation was already defended in the first edition (1973) of the textbook. See §2 of Desmarais-Tremblay (2016) for an analysis of this mainstream interpretation of merit goods.

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 different motivations than self-interest and a realistic theory of fiscal processes should make room for other values that individuals might want to defend through public means. Yet, the consequences this short discussion of a 'cooperative approach' to fiscal theory are not obvious to Musgrave and Musgrave at the time.

Although Musgrave and Musgrave (1976, 122) noted in passing that 'the concept of collective wants thus comes close to that of merit goods in their unadulterated form', the discussion of the former wants did not appear in the same context as that of merit goods. This changed in the third edition of the book in which the newly renamed 'communal wants' are discussed side by side with 'merit wants' (Musgrave and Musgrave 1980, 83-86). Compared to the previous edition, the authors add the following 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 realised by Musgrave in his entry on 'merit goods' for the *New Palgrave* in 1987. One reason for this late integration of the two concepts might be that from the 1960s 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. It is a reflection on their needs of social being, not on specific commodities. If the concept of merit goods is more fruitful in the discussion on 'fair shares' of primary goods, of 'higher values', and of 'community values', as Musgrave (1987) claimed, then it is more appropriate to talk about merit *wants*. Going back to the label of *wants* brings it closer to the newly (re)discovered idea of 'community preferences', or 'communal wants'.

Thus, contrary to the 1960s and 1970s when Musgrave tried to minimise the relevance of merit wants, from the 1980s onwards, he started to commend more and more his concept, probably because he found better philosophical underpinnings. Moreover, the communal wants rationale is a positive argument to support public provision of some goods and services; it does 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 suggests an alternative principle for the allocation of some resources (Musgrave 1987).

Beside the philosophical opening of the 1970s, another reason for Musgrave's regain of 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 programs, the concept of merit goods could serve as a reminder of the plural functions of government in a democratic society. As Samuelson (2008, 167) recently remarked: 'Since about 1980, under the influence of libertarians like Milton Friedman, the quasi-paternalistic 'merit wants' of Musgrave have too often become forgotten.'

In fact, Reiner (2011, 302) argues that the contributions of Michael Walzer and Michael Sandel to the so-called communitarian doctrine in political philosophy has 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. First of all, in terms of the epistemological starting point. For instance, Taylor argues that a study of human morality has to be based on social practices. Such an account has to make room for how individuals perceive their identity in the modern world. Taylor (1979) shows that our identity depends on common understandings. Acknowledging this, individuals normally support the flourishing of some institutions which sustain their culture. Later, he argued that 'as a philosophical doctrine, welfarism is acting as a screen, which prevents us from seeing our actual moral predicament, and from identifying the real alternatives.' (Taylor 1990, 63). Sandel, who studied

under Taylor at Oxford, defends a republican view of democracy which cannot be modelled on the principle of consumer sovereignty:

But citizens are not customers, and democracy is not simply a matter of giving people what they want. Self-government, properly practiced, leads people to reflect on their wants and to revise them in the light of competing considerations. Unlike customers, citizens sometimes sacrifice their wants for the sake of the common good. (Sandel 2005, 79)

Or take Walzer (1983, 65), for whom community belonging is a basic human need as well as being an experience that gives value to our other needs: ‘But one of our needs is community itself: culture, religion, and politics. It is only under the aegis of these three that all the other things we need become *socially recognised needs*, take on historical and determinate form.’ Second of all, redistribution and community membership are inextricably linked. Walzer argued, for instance, that communal provision of goods is redistributive in character. Arguments about communal provision are interpretations of what members of the community owe to each other in virtue of their union (ibid., 82-83). For Sandel, redistribution can only acquire a strong moral sense if one accepts community belonging as a defining factor of human life, not something one can freely choose. Sandel claimed that Rawls’s individualistic defence of his difference principle was not convincing:

To put the point another way, the difference principle, like utilitarianism, is a principle of sharing. As such, it must presuppose some prior moral tie among those whose assets it would deploy and whose efforts it would enlist in a common endeavor. Otherwise, it is simply a formula for using some as means to others ends, a formula this liberalism is committed to reject (Sandel 1984, 89).

We have no evidence that Musgrave was knowledgeable about this communitarian literature when he reframed his ideas on merit goods in the 1970s and early 1980s, apart from the fact that he participated in a workshop in Canberra in 1986 where Charles Taylor presented a paper on ‘irreducibly social goods’ (Taylor 1990). Yet, Musgrave read Unger in the 1970s 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 under

the spotlight for Musgrave to benefit from them in his reformulation of merit wants as communal wants.²⁰

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 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 concepts of merit wants (Musgrave and Peacock, 1958; Musgrave, 1987) and of categorical equity (Tobin, 1970) address 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).²¹

At about the same time, Musgrave participated in a Conference in Germany organised by Harald Hagemann on German *émigrés* economists. In his retrospective account of his youth,

²⁰Even if Michael Walzer was teaching at Harvard from 1966 to 1980. Michael Sandel only arrived at Harvard in 1980. Another figure who definitely played a role in the critique of welfare economics is Amartya Sen. He joined the Harvard faculty only in 1987, but he had been visiting before, notably in 1968-1969 when he taught a graduate seminar with Arrow and Rawls. In his entry on merit goods, Musgrave (1987) quoted Sen’s famous essay ‘Rational Fools’ (1977). His criticism is beyond the scope of this paper. Still, one can note that for Sen, groups and communities provide a focus for commitments (Sen 1977, 344).

²¹The reference to Musgrave and Peacock, 1958 is most likely a mistake. Musgrave often referred to his 1959 *Theory* with the date 1958 (the year he sent the manuscript to the publisher). Thus, he likely wanted to refer to his *Theory* (1959). The reference to Tobin (1970) is also made elsewhere, notably in Musgrave (1987). Tobin talks about the distribution of goods in kind by the state, but he does not use the expression of ‘categorical equity’.

Musgrave indicated that a ‘concern with a communal want approach had remained much in the air during my Heidelberg years’:

But 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 hold 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

Skimming over such a long intellectual life allowed us to identify recurrent themes in Musgrave’s writing. The concept of merit wants 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 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 that 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 of the market failure corpus. What did not fit were the communal concerns.

The problem with the new welfare economics more generally is that it is 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 cannot avoid issues of justice beyond a narrow understanding of Pareto-efficiency. For Musgrave, the moral dimensions of the public budget could not be derived in abstracto, but had to be related to the values of the members 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). Friedman (1953, 4) claimed that economic policy debates steamed from differences in economic predictions rather than differences in values. This seems to me a dubious statement, but clearly, we will not be able to find out unless we study these values.

Individuals are always the ultimate valuation reference, but social groups or communities need to enter the theoretical framework, or else there is a danger of building an unrealistic construction based on isolated men. Such a model might be appropriate for a pure market price theory. Yet, it will be insufficient for a theory of the public household. The first exponents of methodological individualism were conscious of this limitation—one that has been 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 oeconomicus assumption was useful only in pure economics. Yet, pure economics is a first approximation of complex human behaviour. This behaviour can 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.²² Two alternatives remain: either to enlarge the bases of economics, or to draw from sociology, and from moral and political philosophy other sources of normativity.

Group belonging can be one such source of normativity for justifying redistribution in cash and in kind. Some might want to go one step further and argue that individuals who are part of a community share a common culture and might demand from their public authorities recognition for their culture and financial support to sustain cultural goods. The category of merit wants can capture these public expenditures in the national accounts. Thus conceived, merit wants are not merely subjective desires or revealed preferences. They acquire an objective value and a shared understanding when debated in the public forum. This justificatory process can be rationalised in a theoretical language from a deontological point of view, or even in a utilitarian perspective. In this case, a complex non-individualistic social welfare function might be devised to represent the social priorities of the community. Yet, some might argue that such a consequentialist and instrumental way of conducting policy—by maximising an objective function—is still a too narrow perspective because it is an unrealistic representation of individuals' public expression of their morality in a democracy.

²² Drawing from Martha Nussbaum, McCloskey (2011) addressed this criticism to Buchanan: 'a good society is unlikely to arise from over-simple models of ethical life. Since virtuous, flourishing societies are what we wish, we had better insert the virtues, [...], "from the start."'

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