Reconstructing a public economics: markets, states and societies

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The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists (Robinson, 1975).

Liberating contemporary economic analysis from the straitjacket of mainstream neoclassical theory is the animating theme of the essays assembled in this special number of the Real-World Economics Review (RWER). The authors of the works assembled here are all committed to the idea that what is regarded by traditional economic theory as a set of exogenous forces framed and deployed from outside the market mechanisms that are the focus of the discipline – namely, the public sector – is in fact an integral agent that directly affects the very issues and phenomena neoclassical theory claims to explain. Indeed, it is the very failure of traditional economic thinking to account for the “public economy” in any systematic and meaningful fashion that prevents it from explaining how societies actually produce goods and services and, in compensation, constructs inapt and futile framings, such as “market failures,” to explain why governments exist.

In contradistinction to prevailing doctrine, the following articles strive to reconstruct a public economics by embedding the public sector intrinsically within economic models. Rather than separate the “public sector” from economics, understanding collective action as something distinct from the economy, a public economics views the entire economic system – the “macroeconomy” as a whole – as comprised of multiple economic systems: of markets, of public activities, and of domestic interactions. As Neva Goodwin explains (“There is More Than One Economy”), human economies may be understood as a construction of the market or “private business economy,” a “public purpose economy,” and a “core economy.” The market is the focus of virtually all of mainstream economic thinking today. Public purpose economy is defined by Goodwin as government, non-profit, and non-governmental entities that focus on a broader array of goals not simply defined by profit-maximization. In the core economy, one finds the domestic activities of consumption, distribution, and resource management that are focused on the survival, nurturing, and welfare of its constituents.

Simply understood as venues within which rational agents pursue optimization goals, markets cannot account for public purpose articulated and projected within collective-action dynamics, domestic and intimate goals framed by affective and cultural behaviors, and ecological and environmental contexts imposed by the physical and biological realms within which all human activities occur. That being the case, an economics that only accounts for the workings of “perfect” markets, understood to exist separately from domestic, public, and ecological frameworks, is not even remotely useful in explaining how economies actually function, let alone how they might be improved. If, for example, government is understood simply as a remedial instrument to rectify “market failure,” its essential role in the economic mechanisms of consumption, production, and distribution is obscured. Similarly, if both the domestic

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sphere (of family and human relationships) and the environment are grasped as dimensions external to, and non-constitutive of the economy, it becomes impossible to analyze and predict economic behaviors and outcomes in reliable ways.

Reframing how economic theory accounts for the public and domestic realms of social life is uniquely tied to the manner by which we understand government action. As June Sekera demonstrates (“The Public Economy: Understanding Government as a Producer”), by viewing governments as essentially economic “operating systems,” that function according to a non-market economic logic and within the constraints of biophysical realities, we gain a far more effective understanding and appreciation of society, markets, and the environmental impacts of economic activity. This not only allows for more accurate analyses of proposed policies; it also animates a deeper and more genuine understanding of the ways in which public goals and purposes may in fact be effectively conceptualized and achieved. There is no better historical demonstration of this fact than in the twentieth century experience in the United States.

The transformation of the American political landscape in the wake of Vietnam era had subverted the very foundations of the liberalism that had made sense out of a genuinely public economics. An emphasis on political economic issues that had framed the high tide of activist government since the Great Depression of the 1930s had provided a community of professionals with both the means and the ends to deploy their expertise. As soon as social issues concerning opportunity and equality occupied center stage, most dramatically in the formulation of the 1960s “War on Poverty”, American liberalism ran headlong into the abiding national puzzle of race and ethnicity. A backlash was the inevitable result, one that shifted a dynamic emphasis on productivity and plenty during the 1950s and 1960s to a static refrain concerning the costs and benefits, the winners and losers in market outcomes during the 1980s and 1990s. So dependent had the promise of liberalism been upon sustained growth as a vehicle of redistributive betterment and justice that the first signs of macroeconomic instability robbed it of its voice and its authority. Indeed, by the last years of the century, “New Deal liberalism” was dead, and with it the hopes and achievements of a public economics.²

Perhaps it was predictable, given the rightward turn of American politics in the late twentieth century, that professional economics would itself regress and retrench. A kind of naiveté coupled with an unbridled enthusiasm had propelled the discipline’s leading lights to make claims on its behalf it could not redeem. Once events, and the ideological shifts they provoked, overtook the statecraft economists had so painstakingly fashioned, their flanks were wholly exposed to an unrelenting and unparalleled assault. Reversion to classic principles, a rejection of heterodox notions, an insistence on a professional deportment unable and unwilling to join with the ideological issues in dispute, and a contentment with a return to scholarly detachment were understandable if pathetically timid reactions.

It has been a conviction of those who study the history of the sciences that moribund intellectual traditions may only be overcome by the effective articulation of alternatives. For modern American economics the possibilities for such a restructuring were by the late 1990s, precisely because of the effectiveness of the professionalizing processes that had obtained since the turn of the century, few and far between. A select group at leading colleges and universities continued to wield enormous influence over the distribution of research grants,

² The historical discussion that follows is drawn, in large measure, from my earlier work on the history of the American economics profession. See, for example, A Perilous Progress: Economists and Public Purpose in Twentieth-Century America. Princeton: Princeton University Press, 2001, ch. 6.
their own ranks replenished from a hiring process disproportionately focused on the graduates of a small number of highly regarded training programs, including their own. Any examination of publication practices in the field would demonstrate as well that the dissemination of research results remained powerfully concentrated in the hands of an elite few. It is a striking yet hardly surprising finding that, at the height of the economic instability occasioned by the Vietnam War, the OPEC oil price shocks, and the downward trends in productivity enhancement experienced throughout the 1970s, alumni of only seven graduate programs in the discipline authored well over half the scholarly articles published in the nation's three leading economics journals. Such disciplinary inbreeding was hardly conducive to the elaboration of alternative paradigms.

If, by the 1990s, economics was a social scientific discipline fast retreating from a public role it had sought for decades, it was clearly not the case that the influence of all its practitioners was on the wane. Supply-side theorists, in ways far out of proportion with their achievements, continued to enjoy a prominence and an authority in economic debate that was virtually hegemonic. Anti-Keynesian rhetoric became ever fashionable; calls for parsimony in governmental expenditure policy, often phrased in ways approximating a morality play, went virtually unchallenged. No better signal of the sea change that had taken place could be found than the news, broadcast in the fall of 1997, that N. Gregory Mankiw, a young economics professor at Harvard University, would receive a $1.25 million advance from a major textbook publisher to produce a new volume in which Keynes’s name barely appeared once. As advance copies of the text made their way into the hands of reviewers, even Business Week magazine could express alarm at the widening popularity of what was derisively called “feel-good economics.”

There was, of course, a genuine logic to the whole process. Linked with the marvelously abstract claims of rational expectations theory, supply-side economics had succeeded in making a compelling case for the ineffectiveness of national policies that sought to intervene in the nation's markets. Indeed, the argument had been taken a step further by claiming that, even if the government sought to manipulate economic outcomes, it would only succeed in generating a perverse increase in idleness, and aggregate policies to enhance technological change and productivity would in the end only serve to reduce the total supply of goods and services. Thus situated within the analytical domain of supply-side theory, economic statecraft was stymied. Why do anything when activism brought no appreciable benefits? A new laissez-faire doctrine found the largest possible audience, and the hope for a reorientation of economic analysis that would have made sense of the disturbing events of the 1970s and 1980s, while remaining true to a commitment that had characterized the profession since the 1930s, went unrequited.

Following the economic turmoil of the early 1970s, indicting government for the nation’s material woes had become an ever-more-expansive enterprise. Dismantling the Keynesian apparatus of the federal government had been only part of this project. Eager to ferret out any plausible cause of inefficiency and inflated costs in the national economy, analysts, political leaders, policy advocates, and pundits became increasingly preoccupied with the perceived burdens of governmental regulation in the marketplace. Deconstructing a variety of federal statutes and agencies, along the lines specified by an offensive against such statist intervention in economic affairs, became a significant parallel strategy in the eradication of Keynesian practice. Proponents of what was dubbed “privatization” argued that such reforms in the ways government did business would lead to greater efficiency in the allocation of scarce resources. By leaving decisions to businespeople and other expertly trained
individuals in the private sector, it was claimed, an appropriate system of incentives and capabilities would yield a more optimal distribution of services and a more inspired utilization of scarce public monies.

One of most powerful weapons against a public economics, deregulation had a bipartisan gestation, its birth facilitated by the antitaxation attitudes fostered during the economic uncertainties of the 1970s. It was Jimmy Carter’s presidential administration – building upon some initial and tentative steps taken by Gerald Ford’s White House – that launched the first systematic efforts to reassess and ultimately eliminate to whatever extent possible federal oversight in the finance, telecommunications, and transportation sectors. The initial forays were focused predominantly in the aviation industry, culminating in the closure of the Civil Aeronautics Administration when Congress passed the 1978 Airline Deregulation Act. Fast on the heels of that landmark legislative decision, came the 1982 settlement between the Antitrust Division of the Department of Justice and the American Telephone and Telegraph Corporation (AT&T), an agreement that began the systematic deregulation of the nation’s telecommunications infrastructure. Shortly thereafter, the Reagan administration began reconfiguring the government’s role in the nation’s banking industry, an effort that had profound consequences in the savings and loan sector for years to come. By the time George Bush took office, the momentum of the deregulatory process had grown very strong indeed. Declaring a moratorium on all new federal regulations early in 1992, the president also asked his deputy, Vice President Dan Quayle, to chair the new council on Competitiveness as an informal “superarbiter” of national regulatory issues.

While the Quayle Council lasted only a year, liquidated in its infancy by Democrat Bill Clinton in one of his first acts as president, the political movement of which it stood as a striking exemplar continued. So irresistible was the appeal of deregulation rhetoric that policy initiatives were proposed and often enacted without due consideration of either their justification or their consequences. Increasingly, mainstream American economists made themselves part of this process-often eager to formulate techniques for its implementation, rarely willing to confront many baseless assertions deployed on its behalf. Nowhere was this strange reality made more manifest than in transformation of the regulatory environment within which the nation’s banking industry did its work.

Beginning with the Ford and Carter presidencies, operational rules for banks, brokerage houses, and savings and loan institutions were relaxed. Among brokerages, deregulation resulted in a proliferation of discount offices that allowed investors to avoid the expenses and commissions associated with more traditional houses. Among banks, the elimination of many restrictions on the geographic range of their operations stimulated competitive entry throughout many states, although by the early 1990s a re-concentration of assets through bank mergers began in earnest. In the savings and loan industry, however, deregulation contributed to a crisis of mammoth proportions.

It was in the period before deregulation, when rising interest rates and the proliferation of money market investment funds made it increasingly difficult for savings banks to offer depositors competitive rates of return, that the savings and loan catastrophe had its roots. As the rates paid on such alternative investments as money market funds dramatically increased (in no small measure pushed upward by the process of inflation that began in 1973), “Regulation Q,” a federal rule limiting the maximum rate of interest that could be paid on savings and other demand deposits, made it virtually impossible for savings and loan institutions (S&Ls) to attract funds. Ironically, interest rate regulation had begun in 1933 when
the Federal Reserve System implemented its first version of Regulation Q. The goal had been precisely to prevent the competitive shopping around for interest returns and to encourage depositors to place their funds in institutions selected on the basis of reputations for solvency and safety.

Banking industry lobbyists, not surprisingly, wished to eliminate Regulation Q. In 1980, the Carter administration, ostensibly seeking to aid a troubled industry, eased interest rate restrictions by means of the Depository Institutions Deregulation and Monetary Control Act (known, by insiders, as the ‘Diddymac’). The new law abolished geographic restrictions on the investment activities of S&Ls, thereby bringing a national market within the purview of individual institutions that had operated locally for decades. It also provided for deposit insurance of up to $10,000 for every savings account in the system - tendered by the Federal Savings and Loan Insurance Corporation (FSLIC), a derivative of the Federal Deposit Insurance Corporation (FDIC). S&Ls were no longer tied to deposits generated in their immediate communities but rather could attract deposits from far away by offering through brokers the high rates of interest made possible by deregulation itself.

Geographic deregulation created a national market in unregulated savings deposits - as, for the first time, S&Ls were allowed to offer account and credit privileges and other banking services nationwide, FSLIC guarantees simultaneously created a false sense of security within the S&L industry itself. The thrifts responded by investing in speculative commercial ventures in the hopes of shoring up their profitability - profitability that had been compromised for over a decade by Regulation Q. Thrifts’ net income, as a share of their total assets, had averaged only 0.5 percent throughout the late 1970s; it fell to 0.1 percent by 1980 and turned negative in 1981 and 1982. Home mortgage business, the mainstay of the industry since the Great Depression, dropped off. Indeed, it became increasingly (and uncharacteristically) common for the S&Ls to provide full financing for a broad spectrum of investments with little or no down payment.

A further difficulty emerged in this reformed environment. Thrifts found that the interest they earned on traditional mortgages provided insufficient funds to pay the higher interest rates they were now allowed to offer on an array of financial instruments. Some institutions thus began to use up their own liquid reserves to make good the difference. By 1982, fifty thrifts nationwide failed - a rate unprecedented since World War II.

Congress, reflecting bipartisan concern for the S&L sector, responded with another revision of law. The Garn-St. Germaine Bill, signed into law by President Ronald Reagan in 1982, having gone “through Congress like a dose of salts, with virtually no hearings in either Senate or House Banking committees,” further loosened the restrictions on the kinds of investments S&Ls could make. The Federal Home Loan Bank Board, later reconstituted as the Office of Thrift Supervision, also participated in this strategy by reducing, virtually to zero, the minimum amount of capital that a bank was required to have on hand to underwrite particular investments.

In the savings and loan industry, the deregulation of the 1970s and 1980s generated hasty, at times foolish and even corrupt, decision making. Operating in unrestricted and almost unknown territory, S&Ls became involved in questionable investment schemes, many of them unsecured, some very risky. Moreover, in the late 1980s, as the real estate market softened (especially in the South and the southwest due to troubles in the oil, mining, and aviation industries), thrifts found even their traditional avenues of investment painfully encumbered.
Thus began a series of savings and loan failures that had no equal since the 1930s. Unable to make good their obligations to depositors, S&Ls exhausted their deposit insurance and approached the Congress for relief. The full dimensions of the “bailout” ultimately necessary to restore the industry to firm footing were nothing short of mind-blogging.

Deregulation, at least in the financial sector, thus failed its proponents.

Undertaken at the behest of an energetic and vocal academic and political constituency, it created vast costs in addition to its purported benefits. Regulatory reform, in this sense responded far less to the lobbying of public-interest groups than to the efforts of cadres of new entrepreneurs (such as Carl Icahn in aviation, and Charles Keating and Michael Milken in finance) and academic practitioners (such as Alfred Kahn, the Cornell University economist who was one of the original architects of airline deregulation) to gain access to particular markets and to enjoy and exploit new levels of statist influence and visibility. There were no mass demonstrations in state capitals or in Washington, D.C., to deregulate major sectors of American industry. In the hands of a small cadre, deregulation became an essential part of the doctrine of laissez-nous-faire.

The savings and loan debacle did nothing to stem the ardor of public officials for continued deregulation of the banking industry as a whole. By the spring of 1997, Clinton administration specialists prepared legislative proposals to allow insurance companies, banks, and securities firms to do business in one another's markets. A practice long banned by the Glass-Steagall Act of 1933, which had been fashioned in response to the reckless management of investment funds that had helped make the crash of 1929 a catastrophe, the intermingling of banking and other financial operations had remained under close federal scrutiny for decades. The legislative passage of these proposals were secured in 1999. Meanwhile, the potentially anticompetitive and dangerous aspects of the proposed overhaul—such as the “tie-in” sale of mortgages and mortgage insurance, or the use of deposit funds in high-risk investments in which a bank had taken a particularly aggressive position—went mostly unremarked.

It was, to be sure, not simply the financial sector in which the consequences of deregulation expressed themselves in such negative ways—nor where the vast majority of the economics profession continued to stand mute, except in those contexts in which it could facilitate the deregulatory process itself. In the airline industry, where deregulation advocates had long pointed to apparent successes in the expansion of service and the lowering of fares, such that an ever-growing proportion of the nation’s population used air transport year after year, elimination of the Civil Aeronautics Administration generated a less than impressive record of economic accomplishment. From the early 1980s until 1988, the number of independent airline companies fell by more than half; the number of independent regional airlines declined from 250 to 170. In the same time period, over 300 small towns lost commercial aviation service altogether. As major companies, in the deregulated environment, created “hub” facilities, price competition in those particular markets virtually disappeared. Concerns about hard-pressed firms skirting safety regulations, manipulating labor practices, and delaying maintenance schedules proliferated nationwide. By the late 1990s, the industry had re-concentrated itself in the wake of significant mergers. Complaints about price fixing thus escalated. While many transportation economists had been quick to applaud the implementation of airline deregulation, virtually none of them spoke up about the problems that emerged in the newly configured industry.
Telecommunications afforded a particularly large and complex territory for deregulatory initiatives, especially given the dissemination of new technologies (ranging from personal computer to remote cellular phones to digital television to the Internet) throughout the business world and a large proportion of the nation’s households. By ending the AT&T monopoly of the nation’s telephone and telegraph market, the 1982 consent decree clearly led to a rapid drop in long distance toll rates. Much like the immediate impacts of airline deregulation, the divestiture led to a marked increase in the nation’s use of long-distance telephony. At the same time, and again ignored by economists who had mobilized in favor of the breakup of AT&T, the cross-subsidization of local phone costs by long distance revenues, long claimed by AT&T itself, was lost.

Local phone service became increasingly expensive; by the late 1990s, the costs of installing household phones had run sufficiently high as to cause consternation on the part of advocates of lower-income groups. Pay phone access was similarly restricted through both higher per-call costs and the reduction in the number of phones available for public use. Fees were imposed for the use of directory assistance for the first time. Many consumer groups were left wondering if the nation’s households were left off or not. No such self-interrogation appears to have occurred in the economics community.

Deregulation of the telecommunications sector also brought a massive restructuring of firms within it. Liberalization of ownership laws, which for decades had sought to mitigate the potential for oligopolistic control, was the proximate cause. New auction rules, implemented by the Federal Communication Commission (FCC) to allocate spectrums for wireless technologies, among their innovations, furthered the easing of governmental oversight of the industry as a whole. Allegations of bid rigging emerged almost as soon as the FCC arbitrage began. The economic expertise that had fostered the creation of these new auction procedures was absent efforts to police its equitable enforcement. Meanwhile, the many smaller companies spawned by the AT&T antitrust decision began, by the late 1990s, a merger initiative to reclaim both market share and its attendant control. The difference, this time, was that the federal regulatory apparatus to oversee such newly constituted large industry actors was gone.

In the health care industry, deregulation was less an issue, with the exception of proposals to reform product safety codes, than the pursuit of strategies to make the delivery of care more market-based than practice-based. With respect to the former, allegations that the Food and Drug Administration (FDA) had become “hostile” to business and a fetter on profitability in the pharmaceuticals industry dovetailed well with suggestions that new-product testing become more privately based. In response to industry complaints that FDA reviews were too costly and time-consuming, friendly politicians—no doubt inspired by the rhetoric of an economics profession increasingly opposed to government intervention in markets—took up the cause. Led by Senator James Jeffords, Republican of Vermont, the Congress began consideration of a bill to privatize FDA operations in the summer of 1997. That bill, if it had become law, would have allowed pharmaceutical companies to submit new products for inspection to private laboratories they themselves would have designated. So obvious were the corporate intentions behind this effort, the epitome of a laissez-nous-faire attitude grown more and more popular, that the relative silence of industrial organization economists on the matter was startling.

As for medical care delivery itself, the drive toward deregulation and privatization revealed a series of contradictions that remained unresolved throughout the 1980s and 1990s. Basing
medical practice on a cost-benefit calculus, framing it within the for-profit institutional setting of the health maintenance organization (HMO) and of “managed care,” raised a series of disturbing ethical questions and fostered increasing amounts of resistance on the part of consumers. Ironically enough, this in turn stimulated some efforts to reregulate the industry, although the outcome of those initiatives remained unclear. Leading medical economists, such as Uwe Reinhardt of Princeton University, along with their claim that only by imposing free-market incentives would the costs of medical care come down over time, increasingly attacked what they described as the “entitlement mentality” of Americans on the subject of health care. In this rhetorical design, of course, these scholars (even if unwittingly) linked their arguments with those of conservatives opposed to the welfare state agendas of earlier decades. No small part of the movement to render the health care industry more like its private-sector counterparts were the rising costs of Medicare itself in a nation in which the age composition of the population rose steadily from the 1970s onwards. Suggestions that greater proportions of Medicare practice be “profit-based” and that means tests be imposed on Medicare recipients only made more acceptable what had become a more and more common strategy of a federal government strapped for revenues—the imposition of “user fees” for various services once guaranteed to all under a progressive income tax system. Here again, the budgetary problems of the post-Vietnam War era provided the substratum within which a virtual revolution in both social policy and social science expertise (not to mention public attitudes) could take place.

Advocates of market-based practices in social policy also turned their attention to matters of environmental protection. Here, too, substantial segments of the American business community, by the 1980s, complained of an “overregulation” with respect to air and water quality, as well as occupational and consumer product safety, that excessively jeopardized the profitability of enterprise. That significant proportions of the workforce could be mobilized in this anti-government stance was testimony more to the anxiety working Americans had regarding the security of their employment than to powerfully held convictions about the virtues of free markets. Economic theorists again became indispensable participants in the conversation. The notion that direct regulation of “externalities” tied to particular economic activities was necessary precisely because no private allocation of liability was immediately possible in the unregulated marketplace was subjected to growing criticism. In its place the discourse of exchange took center stage. Specialists suggested that externalities be, like all commodities, instruments of commerce. They argued that firms whose production processes generated effluents or toxic waste, for example, should be free to bargain, both with government and with private households, as to acceptable levels of discharge. A polluter could then in principle pay a subsidy for environmental damage; those eager to protect the environment, in parallel fashion, might bargain over an agreed-upon level of payments to an establishment to cease and desist from particular activities. Inspired by this kind of reasoning, in 1994 the Air Quality Management District in the Los Angeles region instituted a program of “smog credits” whereby companies could accumulate points allowing for particular levels of air pollution in exchange for other environmental remediation (such as paying for the scrapping of old cars without catalytic converters). The general idea was market based: let pollution be bargained over like any other product. Private parties to that transaction, acting on rational incentives, would generate “optimal” outcomes.

As an instrument of alleged social reform, the free market became a canonical device in the hands of late-twentieth-century economic policy analysts. Deregulation of electricity transmission, privatization of prisons, proposals for “tax vouchers” to create a private market in schooling, the renewed construction of toll roads, suggestions that the postal service be
eliminated, trial programs to let private corporations run state welfare systems, experimentation with the privatization of social security accounts, contracting out local services to private firms—ranging from parks maintenance to air traffic control to public library networks—even the notion that various parts of the national security and defense apparatus be contracted out to the highest private bidder, all became and remain parts of a new economic “discourse” in contemporary America.

Yet, in perhaps the greatest irony of all, the profession that once prided itself on the refinement of the idea of “opportunity cost” had (and continues to have) virtually nothing to say of substance regarding the “opportunity costs” of privatization. On the one side, deregulated markets fostered the expenditure of vast sums of money on new promotional efforts to encourage consumers to shift services from one provider to another. Daily mail deliveries and frequent evening phone calls became the advance guard of a tidal wave of sales efforts and “come-ons” that presumably fostered competition in previously monopolized services but that also consumed greater and greater amounts of both company resources and households’ time and energy. At best, deregulation prompted confusion among targeted populations; at worst, it provided a venue within which corrupt practices could flourish. To respond in reasoned and informed ways to every proposal would have forced consumers to allocate ever-increasing amounts of already scarce time to their evaluation. For a vast majority of consumers it was not unreasonable to assume that the avalanche of competitive market information became an incoherent and often bothersome babble. Models of “rational expectations” were clearly not equal to the task of explaining this strange new reality. In this context, the warning of the ages—caveat emptor—took on an altogether poignant meaning.

On the other side, deregulation restructured markets in ways that often stifled competition. By the early 1990s, local governments began to examine the practices of new entrants in major utilities sectors that seemed decidedly manipulative, if not based on overt conspiracies to restrain trade. In certain instances, proposals to “reregulate” industry met with attention hearings in local government agency. Over time it is conceivable that certain sectors may indeed be subject to new regulatory discipline, although such intervention will take place in the wake of a complete redistribution of particular markets among a new set of industrial actors. Viewed from this broad, historical perspective, deregulation in the late-twentieth-century United States was actually nothing of the sort. Far from an inspired political process of liberation, whereby an overweening state apparatus was chased from the field of energetic competitive enterprise, deregulation was actually an essential moment in the reregulation of the nation’s markets for the benefit of new corporate constituencies. Of this most remarkable development in economic affairs, the discipline that, more than any other, helped initiate the process has had nothing of importance to say.

Privatization also generated productivity losses and cost inefficiencies owing to the burdens it imposed on communities negatively affected by market restructuring. For example, in central urban areas where banking deregulation led to the liquidation of large numbers of branches, whole neighborhoods found themselves without banking service. In many cases this then prompted the proliferation of check-cashing and gyro-account storefronts that imposed high fees for their services. The same was true of the increasing use of automated banking machines. Aside from the direct cost consequences of these developments, the additional indirect burdens loomed large. Individuals might spend half to all of a day taking care of a variety of transactions that once could have been quickly secured at a local banking branch. In health care and day care, similar problems emerged in the wake of deregulation—serving only to increase the number of lost working days for a population already paying ever-higher fees for services once provided on a more universalized and thus cheaper basis. Perhaps in
this sense, contemporary markets should not be understood to have “privatized” but rather to have been “anomized” or “disassociated.” For a significant portion of the nation’s population, the effort to decollectivize the assignment of cost liability of an array of social “goods” had a significant impact on styles (and qualities) of life and levels of economic welfare.

By the late 1990s, no more dramatic example of the wholesale reorientation in the attitude of mainstream professional economists toward public policy strategies had emerged that that concerning information and statistics. The impulse to “deregulate” market environments quickly extended itself to the domain of data generation and distribution; with it, the urge to halt the government’s participation in the provisioning of timely and accurate information regarding economic performance followed as a matter of course. To the extent that economic statistics could themselves be conceived of as a commodity, it seemed logical that their “production” and utilization should be privatized. Suggestions that the statistical reporting activities of federal agencies such as the Department of Commerce, Department of Labor, and Council of Economic Advisers be terminated were seriously entertained. Individuals, households, and firms (not to mention government offices themselves) could, it was argued, purchase economic information from private econometrics practices. Superior statistical work would be rewarded, in such a market setting, while inaccurate and unreliable products would ultimately be driven out by the discipline of competitive enterprise. An econometric “shop” capable of delivering effective forecasts of, say, inflation, unemployment, and other significant parameters would find its services much sought after by consumers (within both households and corporations) eager to make appropriate allocative decisions. The converse would of course be true for those statistical operations less skilled and capable. This suggestion, that the statistical activities of government be replaced by the private venues of “normal” commerce, had the added virtue, in the eyes of its champions, of encouraging further shrinkage in the size and cost of governmental agencies themselves.

At the same time that proposals for the privatization of statistical reporting emerged, political leaders launched an ever-widening array of attacks on the actual process of economic forecasting within the federal government itself. Inflation-rate projections came under increasing scrutiny as their implications, for the payment of social security assistance, the adjustment of income tax brackets, the renegotiation of federal contracts over time (as well as the modification of private sector wage and price agreements), all captivated a Congress, and ostensibly a public, determined to reduce federal expenditures. Here, too, decades of criticism and cynicism about the economic activities of government took their toll. By early 1997, Senate leaders called for the establishment of an independent panel of “experts” to review and improve the ways in which inflation was measured. That for decades the Council of Economic Advisers, the Department of Commerce, the Department of Labor, and the Treasury had been entrusted with this important task, and that this new proposal was almost universally accepted, only gave further testimony to how frayed federal agency reputations had become toward the end of the century.

Speculative yet serious-minded late twentieth-century proposals to privatize the creation and dissemination of economic data brought this fascinating and intricate history to symbolic close. For professional American economists the essential mechanism in the working of a modern market system was the liberation of individual rationality, armed with the benefit of accurate and reliable information, to pursue chosen ends. Further, they argued so long as rationality was not somehow distorted or “bounded” in illegitimate ways, and provided that market information was consistently accessible to all, the outcome of competitive bargains would be the best possible for the largest number of market participants. Leaving the very
instrument of rationality itself, information and data, to the competitive discipline of the market emerged as a logical and coherent extrapolation of the essential argument in the first place.

Yet in the very effort to idealize the market and its operation, contemporary American economists had left aside the other part of the equation—the history that had seemingly made their ideas and practice relevant to and important for a public purpose. When, for example, U.S. secretary of Commerce (and later President) Herbert Hoover had insisted in the interwar years of the twentieth century, that government should provide free and accurate economic information for an enterprising and rational people, he had merely sought to operationalize some of the more rarefied claims of a modern economics itself. A half century later, in headlong retreat from the demands of a statist social science, American economists turned Hoover’s insight on its head. In doing so, they substituted a crucial precondition of the proper workings of an unfettered market system for the product of the system itself. Human rationality, and the intelligence and statistics that were its necessary components, thus became not the distinctive premise of a modern science of society but rather mere articles of commerce themselves. American economists thus made products of what had been, for their discipline for many decades, their starting axioms.

Not the least of the consequences born of a century of professionalization in economics has been the determination of its mainstream practitioners to rid it of what they take to be political overtones. In place of the unabashed partisanship of its earliest and most illustrious architects—Francois Quesnay, Adam Smith, David Ricardo, Karl Marx, John Stuart Mill, Leon Walras, Alfred Marshall, and John Maynard Keynes, to name some—contemporary economists have fashioned a method of inquiry and a style of argument that reifies the workings of a “free market” to the status of natural law. Yet unlike their colleagues in the life sciences who, in their study of the structure and function of organisms, understand pathology and decay to be inherent in their subjects, these social scientist conceive the object of their study to abide in an immutable and generally healthy fabric born of what they believe to be “human nature.” It has been the strange logic of this particular doctrinal evolution that its proponents have increasingly argued against therapeutic intervention when markets have performed poorly. Allowing markets to function “naturally” has been their more common prescription—so unlike their counterparts in medicine and physiology who for centuries have honed instruments and techniques specifically intended to divert nature from its course.

Needless to say, the generally anti-public posture of the contemporary economics profession, and the policy frameworks it thus empowers and inspires, are not simply the products of the imagination or will but rather the outcomes of long-lived historical forces that have indeed spanned all of the last century. That today most economists believe in allocative outcomes—such as rising level of material welfare, high rates of empowerment, stable price structures, and vibrant patterns of technical progress—that the market cannot generate and indeed has never generated on its own is but the mirror image of the fact that, in its unregulated and unmanipulated operation, the market only betrays all that economists have ever imagined. Indeed, it is this reality that has, over the ages, inspired the discipline’s greatest advances in theory and method.

Delivering contemporary economics from the dangerous and destructive theoretical impasse in which it is currently enmeshed requires both a new understanding of the “public” and the reconstruction of the discipline of public administration. Achieving these goals, as James Galbraith makes clear ("The Need for a New Public Administration"), requires the abandonment of the idea that governments only “intervene” in otherwise fully operable
markets. Far from functioning independently of public mechanisms, markets actually require the rules, limits, specifications, and orientations provided by government to function at all. If close attention is not paid to this reality, there is the obvious risk that the public contours of market mechanisms become desiccated and manipulated by private agents. This capture of the public interest by private aggregations of wealth and power then ironically emboldens mainstream theorists in their claim that “pure” market mechanisms always generate superior outcomes. Yet it is the inability to account properly for the manner in which markets and governments are intimately connected that prevents contemporary economics from identifying the true source of “market failure” in the first place.

An honest reflection on the capability of public entities to pursue well-articulated goals in effective and efficient ways requires that we jettison unquestioned assumptions about the “waste” of public offices and agencies. Janine Wedel (“Bureaucracy Shouldn’t Be a Dirty Word: The Role of People-Responsive Bureaucracy in a Robust Public Economy”) powerfully interrogates the assumption that all things “public” are, by definition, unaccountable to appropriate mechanisms of control and assessment. She notes that “true accountability” requires the use of properly conceived metrics, measurements that make sense of public needs, goals, and aspirations. This is an exceedingly important point that is shared among all the papers of this special issue – one to which we will return shortly.

That a truly useful and meaningful economics is tied to a comprehensive grasp of the public sphere and of statecraft itself is made vivid in both historical and present-day settings. Victoria Chick (“Industrial Policy, Then and Now”) destabilizes the notion that government is “inefficient” as compared to private market practices. Comparing the interwar twentieth century British policy with respect to industrial development with that of the current Tory government, she finds that the assertion of an a priori distinction between the public and the private is both unfounded and subversive of a genuine understanding of the role and impact of government in economic life.

Similarly, Michael Lind (“Putting the Nation-State Back In: Public Economics and the Global Economy”) is concerned to understand how government decisively affects technological change in the modern economy. By exploring the manner in which geopolitical dynamics frame economic policymaking, he debunkes the notion that the economy is somehow a timeless, abstract realm within which “market behaviors” express themselves. To the contrary, it is the competition among nations (for resources and political and diplomatic influence) that most dramatically influences policy choice. And it is the policy decisions of government that then powerfully delimit the manner in which innovation is both generated and diffused around the world.

The active and intentional creation and shaping of markets, and the consequent impacts on the generation and distribution of wealth, are also key aspects of state action in the economic arena. Mariana Mazzucato (“The Entrepreneurial State: Socializing Both Risk and Rewards”) puts the lie to the notion that government is merely the “fixer” of market failures. On the contrary, public actions demonstrate the fact that the state is a “market-maker,” actively determining the avenues within which investment (of both public and private funds) will be deployed. Utilizing the examples of the aerospace and pharmaceutical industries, Mazzucato shows that the public sector, far from intervening to repair “failures” in otherwise well-functioning markets, government agencies and laws have actively determined the pace, pattern, and dissemination of new technologies, new products, and new distribution mechanisms in both national and global contexts.
In thralldom to the dominant catechism of neoclassical economic theory, the vast majority of investigators assume that private markets, if “perfectly” structured and operationalized, will always generate more efficient outcomes than public provision. Yet empirical evidence, drawn from an array of national and regional examples, proves otherwise. David Hall (“The Relative Efficiency of Public Provision of Public Services”) is able to demonstrate this fact with remarkable clarity – and with large stores of data drawn from both highly developed and currently emergent economies. His are a particularly striking set of findings insofar as they strike at the heart of the unsubstantiated pronouncements of orthodox theory regarding the alleged virtues of unfettered markets – in both “private” and “public” settings.

Reconstructing a public economics is obviously a task that requires a broad and capacious understanding of the interactions between markets, public entities, and the domestic sphere, as well as an understanding of systems theory, and a willingness to embrace, rather than ignore, the biophysical realities of economic activity. If nothing else, the essays assembled here demonstrate this. Yet it is also worth noting another, more technical implication of these contributions. Much of our current inability to understand the intricate connections between the public sector, the market economy, and the domestic and environmental spheres is tied to the difficulties we have in properly measuring and accounting for the activities within these various realms. What we count, and how we count it, has as much to do with our conception of the world within which we live as any theoretical framework. Measurement is all. When we say a particular array of activities or policies are effective, we are claiming they are better poised to achieve certain goals and outcomes. Yet how we do know this to be a fact? Cogent and accurate assessment of economic outcomes necessitates not only the gathering of relevant data but also the identification and measurement of precisely those variables that speak directly to the question at hand. What we measure, and how we measure it, essentially determines what we know and decide to do.

A projection of profitability that ignores “externalities” of a production process associated with nefarious environmental impact is not a useful datum. It is at best incomplete, at worst decidedly misleading. Labor market studies that ignore the implicit bias, framed by “signaling” associated with ethnicity, gender, age, or even regional origin, are not investigations that will clearly and effectively reveal the origins of unemployment and underemployment. Estimates of GDP, in both developed and developing economies, that fail to account for (and thus measure) the contributions of unpaid domestic labor in households, are statistical projects that teach us less rather than more about national income accounts. These and countless other examples demonstrate the many ways in which much of economic analysis today is anchored on the shifting sands of unexplored and unexamined assumptions about measurement.

The essays collected in this special number of the RWER show that the re-framing of contemporary economics required in any genuine effort to understand the public realms of economic activity and purpose is a significant endeavor on both theoretical and empirical grounds. Reconstructing a public economics beckons us to a wholesale restatement of the ways in which the economic system is assembled. It draws our attention to the manner in which constituent parts of the economy, ignored in mainstream thinking, actually drive concrete allocative outcomes. Such a rethinking also draws out attention to the need to redefine and evaluate the mechanisms of data-collection and measurement that generate the very determinations by which we judge the efficiency and efficacy of policies and rules. It thereby transforms our appreciation of the salience, importance, and impact of public
economics, a realm which literally defines the social world in which we live, and which animates any meaningful perception of the means by which we might strive to improve it.

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