BOOK REVIEW

The Public Economy in Crisis: A Call for a New Public Economics by June Sekera, Springer International Publishing, 2016. 128pp. pbk. ISBN 978-3-319-40486-8

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With the Trump tax cuts of 2017, the disconnect in popular discourse between government spending and taxing became more or less complete. Rate (and revenue) cuts were considered politically appealing, independent of any imagined social goal that might require public financing. It constituted an end to the debate over the government spending required to attain social goals and the analysis of the tax rates and regulations needed to finance this spending. Whether or not the 2017 tax cuts were merited from a macroeconomic stimulus perspective (they were not), it is important to note that not once in the recent debate over tax cuts did the issue of social protection and public spending become part of the discussion. In the US at the moment, there is little possibility for meaningful discussion of the public good, and specifically of infrastructure needs, educational improvements, broadening access to health insurance, expanding retirement pensions, reducing poverty or even assisting those injured by the introduction of new technologies or foreign competition.

How could such an economically-advanced and financially-sophisticated culture be so completely clueless when it comes to knowing even how to talk about the role of government and the benefit of government programs?

A very compelling answer to this question – and an urgent appeal for change – comes from June Sekera, in her book *The Public Economy in Crisis: A Call for a New Public Economics*, which arrives at a crucial and opportune moment. Sekera argues that the reason the public does not connect taxes to expenditure and does not even know how to discuss the benefits of government spending, is that the economists themselves do not have the conceptual framework to deal with the issue. How could the public be expected to do so if the experts cannot? For Sekera, this absence of a theory of public spending and taxation has had real consequences, "degrading" our appreciation for government production and weakening our democratic practices. In this slim, lively and accessible book, June Sekera makes that case for a new economics to account for the public sector. The aim is ambitious: to reinvent the concept of "public economy" and even of "public" (p. 94) and to go beyond economics to engage the political process. Sekera has been thinking about these issues for decades, and it is an important contribution that this thinking is brought together, combining theoretical critique, history of economic thought, contemporary literature review and original theorization into a single volume.

Sekera spends little time on the dark side of public spending: capture. Recent journalistic accounts show that a significant amount of private wealth is put into influencing public decisions (Mayer, 2015), and that in the era of *Citizens United* this is only likely to increase.

But ideas, and even social theory, matter. Keynes famously noted that "I am sure that the power of vested interest is vastly exaggerated compared with the gradual encroachment of ideas." In this same passage, Keynes writes that "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist." (1964, p. 383). Sekera brings this point home powerfully, writing that "Market economics and Marketization have broken government." This takes the argument beyond the view that the politics of market fundamentalism have been an economic failure because an underlying theory that does not account for inequity and instability that unregulated market forces inevitably bring (for example, as illustrated in great detail by Kozul-Wright and Rayment, 2007). The 2008 financial crisis brought this issue of deregulation and instability again to the forefront of public debate and led to new financial regulations and consumer protections. And the monopolistic tendencies represented by the FAANGs have led to some calls for reinvigoration of anti-trust policy. But Sekera takes the discussion further than what has driven these positive developments, arguing that the treatment of all production and consumption as if it occurred within a pure market, driven by independent forces of supply and demand, not only mischaracterizes much of what happens in the economy, but distorts how we are able to think about social well-being. Importing the market model to the conceptualization and management of the non-market realms has diminished our capacities to act in socially responsible ways, what Sekera describes as a "de-democratization" (p. 41).

In the field of public finance, Sekera argues, even the defunct economists do not offer much guidance. The neoclassical reduction of capitalism to market analysis has reduced the theory of the state to the special case where markets "fail". While there are alternative intellectual traditions regarding the analysis of the capitalist state (more below), these have never successfully captured the imagination of the politicians or the public. This has left a void in our discourse, leaving the cynical perspective of "starve the beast" as the main analytical lens in which policy makers view the connection between taxing and spending. But starve the beast is not only deeply cynical, it is simply a strategic approach to expenditure reduction. It does not constitute a *theory* of public finance.

The widening conceptual divide between government revenue and spending is not just an outgrowth of the emergence of the alt-right. The progressive left in the US has suggested radical shifts in the role of the state, with proposals for universal income guarantees and universal job guarantees (see, for example, Darity et al., 2018, Dantas et al., 2018, and Hughes, 2018). These proposals have been criticized as too expensive or as impractical.

Implementation is difficult (which jobs in the case of the employment guarantee?) and often the financing plan is unrealistic, relying on a financial transactions tax, a wealth tax, or a carbon tax, all of which are well-intentioned and would potentially raise considerable revenue, but which would require a huge political lift in the current political context. Moreover, these proposals are aimed at addressing income inequality, which has traditionally not been a central concern of public economics.

For Sekera, capitalist economies are divided into two "environments", market and non-market. The non-market realm itself has two parts: the "core economy", mainly comprised of households and the care and social reproduction done there, and the "public economy", which is the state. Much of the book is a critique of how economists have conceptualized the state in the realm of the public economy. There are two components to her argument. The first is that economic thought is inherently about markets and thus is ill-equipped to deal with the nonmarket portion of the economy. Or, as Sekera writes in the introduction, "Economic theory today lacks any cogent theory of this non-market environment" (p. xiii). Supply and demand may be one of the great inventions in the history of the social sciences but, Sekera argues, the non-market realm is fundamentally different from a market – there are no buyers, no sellers, and no exchange.

The second part of the argument is that economic thinking – bringing market analysis to bear on the non-market sphere – has fed a political bias in contemporary capitalism against the allocation of resources toward this realm, or as Sekera writes "Contemporary mainstream economics has been a prime factor in the degradation of the public governing capacity in the United States and other western democracies" (p. 1). The consequence of this degradation is a "ravaging of government" and the elevation of private firm profits above considerations of social returns on resource use. In the very powerful opening chapter of the book, Sekera writes that the "entrenched creed of market superiority" (p. 3) has hidden cases of government contributions to social welfare.

Sekera's punch is aimed most forcefully at the neoclassical economists who, in her view, see everything in terms of markets and thus who find the state to be necessary only where markets fail. But public goods theory, the author argues, is far too narrow and conceptually limiting. Sekera raises a number of issues in this regard. For starters, the Samuelsonian tradition in public economics provides no sense of what Sekera terms (borrowing from sociologist Claus Offe, e.g. Offe, 2014) "shared social responsibility". Collective choice, which determines demand in the public economy, is driven in democratic countries by elections. This is a simple but important point, since it immediately implies that politics are at the heart of public sector decisions.

Such "politics" are badly modeled from the perspective of individual rational choice. For one, choice theory typically reduces government role to the demand for goods. Sekera here leans on Richard Musgrave, who wrote that "A political process must be substituted for the market mechanism" (p. 59). The process is a collective endeavor. And as we know from Kenneth Arrow, such a choice is impossible when it is understood as entirely driven by rational individual choice. Nonetheless, and perhaps because economics has a marginal utility-based notion of demand and thus sees every problem as one of optimization on the margin, economists have continued to tweak the Arrow model rather than find another paradigm. Sekera argues that this pursuit has been a dead end: "The driver in the public domain is not profit maximization; rather it is the meeting of identified public needs, expressed through electoral collective choice" (p. 31). Instead, she argues, votes should be viewed as an "input to production" (p. 65). Sekera argues that we need to acknowledge that in a democratic nation, "the public products originated with the polity and that accountability is at the ballot box" (p. 80).

Another problem with Samuelson's public goods approach is that it limits the type of goods under consideration, since each good must be non-rival in consumption. What about schooling? Sekera adds to this example a long list of processes, obligations and provisions of financial security that are crucial for a good society but very difficult to shoehorn into the Samuelson approach (see Sekera's very useful chart on p. 69). Public goods don't have "buyers" in the sense of consumers seeking to satisfy their own self-interest. Public goods are purchased by an "agent" who is seeking to meet public need (p. 73). Moreover, we have no definition of efficiency for the non-market realm, and in fact much of the benefit coming from the use of public goods is "invisible". Sekera cites Suzanne Mettler's research that "although virtually all Americans have participated in government programs, most deny it". Sekera's argument that economics has degraded the role of the public sector with real and negative consequences – is based mostly on the conceptual case rather than any empirical evidence.

To an extent, this lack of empirical support is precisely the author's argument: that it is hard to measure the efficiency of non-market expenditure. Success in the public realm is difficult to assess. Public choice theory – that government actors don't abide by votes but by self-interest – is also rejected for a lack of empirical support. Sekera writes that "Public choice is not economic theory: it is political ideology hiding behind economic dogma" (p. 90).

Economics today has not advanced beyond the 1950s and the Samuelson-Arrow and Buchanan perspective on public goods and public choice. Sekera's book is a plea for change, to rejuvenate society's appreciation for, and analysis of, the role of government in providing for economic well-being and economic development. Sekera's ambitions are very high:

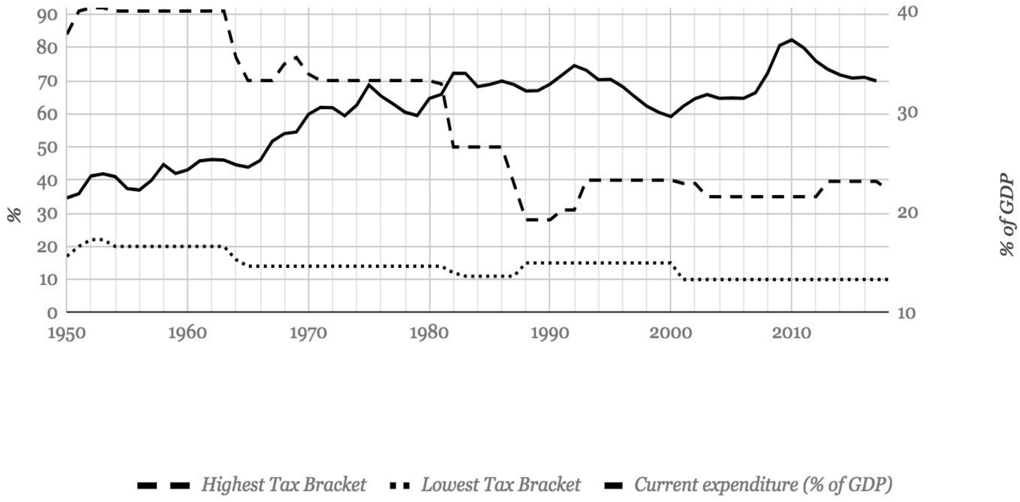
> "We still lack a fully-drawn theory of how goods and services originate through collective choice in a democratic nation-state. We need an economic theory that accounts for the public nonmarket mechanism by which the citizenry choose and pay collectively. We need a theory that recognizes the centrality of the election of representative who legislate goods and services into being and which lays out the forces that drive and constrain nonmarket production…" p. 43

Sekera's treatment harks back to a heterodox tradition of public finance in which the analysis of the finances of the state cannot be detached from the functioning of markets. This is the German tradition of Adolph Wagner and of Gerhard Colm, which sought to "integrate fiscal phenomena with the totality of social and economic conditions" (Colm, 1930, p. 320). Colm not only made the case for taxes and social goals to be interlinked, he also connected the fiscal realm to the overall macroeconomic picture and to the attainment of "the public interest". It was the determination of this public interest that Colm viewed as the essence of the democratic process, and it brought Colm to be a great defender of the democratic underpinnings of economic planning (Milberg, 2017). Colm's view that social goals can be identified in a democratic political process was elaborated by Adolph Lowe, whose notion of "political economics" was precisely to foreground the determination of social goals and then to understand structural economic forces need to achieve the goals (Lowe, 1965). This European tradition carried into American economic thought through the New Deal economists' thinking about planning (to which Colm was an important contributor). It was carried forward in the heterodox writings of Galbraith and Heilbroner, for whom the public and private realms – state and market – are closely connected. Galbraith critically noted the unethical disconnect between private wealth and public squalor. Heilbroner saw the connection as a basic structural feature of capitalism, in which the market realm could not exist without its public counterpart (see Galbraith, 1958 and Heilbroner, 1985). Heilbroner noted that often the state's role is invisible. Benefits are dispersed and thus undervalued, tax expenditures are not even recognized as benefits, and public investment that raises the private rate of return is often ignored. Mazzucato (2013) pushed this idea a step further in emphasizing the innovative role of the state, the benefits of which are often not shared equitably with the public that provided the tax funding. Following Heilbroner, Mazzucato (2018) argues that the value of public sector production is often simply ignored.

The growing disconnect between taxes and government spending in the public eye is a problem because it weakens democratic participation. Since 1950, US federal government spending grew from 21% of gdp to 34% of gdp and the tax rate on the highest-income Americans fell from 90% to 37% (see Figure 1). During most of this period around 40% of eligible voters did not vote in Presidential elections.

Figure 1: US Individual Income Tax Rates and Federal Government Current Expenditures, 1950-2015

Source: Federal Reserve Bank of St. Louis



The Public Economy in Crisis fills a growing void in economics and public policy: the need for an economic theory of the state. The Trumpian turn aims at a complete retrenchment of the state in promoting social welfare. A moment will arrive when this view is widely considered impoverished, cynical, scientifically simplistic and ethically blind, uncaring, racist and classist. But as Sekera notes, neither Marxists, feminists, behaviorists or institutionalists have provided a useful alternative conception. If Sekera's "Call for a New Public Economics" is ever met, it may entail a new economics entirely. One cannot reformulate the theory of the production and consumption of the state without also considering the inherent reliance of markets on the functioning of this state.

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SUGGESTED CITATION:
W. Milberg, "Book review: *The Public Economy in Crisis: A Call for a New Public Economics* by June Sekera", *real-world economics review*, issue no. 86, 10 December 2018, pp. 119-124, http://www.paecon.net/PAEReview/issue86/Milberg86.pdf