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What separates Public Choice and Public Finance from a Normative Perspective? A Comparison of the Normative Foundations of Both Programs

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Abstract – Normative propositions or value judgments play a controversial role in economics. This seems especially the case if one deals with matters belonging to the sphere of political economy, as it is done in public finance and public choice. The *public choice* program was established in a clear distinction or even opposition to traditional *public finance*. But the beginning of public choice theory relates also clearly to the beginning of modern *social choice* theory and some fundamental problems of *welfare economics*. And welfare economics again is the normative foundation of traditional public finance. This paper explores in more detail what separates public finance and public choice from a normative perspective. By using a simple classification matrix and a "welfare" map some tentative comparisons of both are offered and the entwined relationship of the different normative approaches is clarified.

Keywords – public choice, normative judgments, public finance, social welfare function

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"A frequent contention is that Musgrave does normative public finance and Buchanan positive public finance. I wonder how the two of them see this." H.-W. Sinn (1999, p. 9)

1 Introduction

Normative propositions or value judgments play a controversial role in economics. On one side it is debated in what sense these kinds of statements are part of economic science proper at all, on the other side it seems difficult to do without them. This seems especially the case, if one deals with matters belonging to the sphere of political economy, as it is done in public finance and public choice. Both research schools and programs are intimately connected and often seen in opposition and rivalry. This opposition is to a good deal seen in relation to the different weight and form that is given (or assumed to be given) to the normative perspective in both programs. This line of separation will be analysed in more detail in the following. In doing this it will be presumed that there is sufficient coherence in each direction of research to allow us speaking of two different research programs in the broader area of political economy.

Public choice theory shows by now all the ingredients of a lively and functioning school of economic thought. It has managed to build up its own scientific community. It has its respected foundations in works like BUCHANAN [1954] and BUCHANAN /TULLOCK [1962]. It has WICKSELLs "Finanztheoretische Untersuchungen" [1896] as its very much acclaimed predecessor (and in addition also some "forgotten" Italian

Public Finance tradition, cf. MEDEMA [2005]). Furthermore, it has its standard textbook in the several editions of MUELLERs “Public Choice”, its “Public Choice” journal and a European and American section of a “Public Choice Society”. And it has some vivid and forceful defenders of its camp as for example BLANKERT/KOESTER [2006] show in their defence of public choice theory against some allegedly new approaches in the field of political economy.

The program of public choice was established in clear distinction and as a critique of traditional public finance. Because of the emphasized connection of public choice theory to some older strands of public finance, public choice can not only be seen as a critique of public finance, but also as a coming back to track of public finance proper, cf. BUCHANAN [1975]. Of course it should be mentioned that it were not only public choice theorists like BUCHANAN that were developing their new ideas by using elements of older continental theories of public finance as building blocks. For example, both MUSGRAVE and BUCHANAN knew the works of WICKSELL and LINDAHL very well and had both their share in giving the theories of these forerunners a wider audience. But it seems justified to say that the influence of WICKSELL was much stronger on BUCHANAN than on MUSGRAVE, cf. HANSJÜRGENS [2000]. While BUCHANAN’s first reading of WICKSELL [1896] in 1948 was directly responsible for a “paradigm shift”, cf. BUCHANAN [1975, p. 393, fn. 10], the early article on the WICKSELL-LINDAHL approach by MUSGRAVE [1939] argues for a “rejection of the voluntary exchange theory” and proposes instead a rational planning approach.

In order to analyze the foundations of public choice one has also to go back to the situation of welfare economics after the ordinalist revolution in the 1930s. This ordinalist revolution sparked a lot of new ideas and directions of thought. It led in particular not only to the beginning of the public choice program but also to the starting of the social choice program. Both approaches have their roots in ARROW's celebrated "Social choice and Individual Values" from 1951. In ARROW [1951] the ordinalist revolution was taken seriously and joined with the classical utilitarian view that it is only welfare that matters. Both positions together led to the famous "General Possibility of a Social Welfare Function", which, in fact, was the "impossibility" of an acceptable ordering of social states as the outcome of different individual rankings of states. Both, the social choice approach of ARROW and the public choice approach by BUCHANAN, have in common that they were led by Paretianism to voting as a natural way to "aggregate preferences". The restriction to an ordinal and interpersonal non-comparable concept of utility put choice acts in the centre of utility theory, and therefore choice acts became the hallmark of any positive analysis of social value. But choice acts are nowhere clearer to be seen as the input of social choice than in mechanisms of voting. And so, for the time being, voting had to be somehow joined with welfare economics.

In the spirit of a social welfare function, as proposed before by BERGSON [1938] and SAMUELSON [1947], ARROW looked for an ethical acceptable aggregating device for individual values into a "social" ordering. BUCHANAN and TULLOCK took another route. Their reaction to the supposed "impossibility" was a clear rejection of the whole approach. For them the very idea of a "social ordering" that behaves like a rational supra-individual ordering was senseless. The "impossibility" shown by ARROW was therefore at best intellectual interesting. But BUCHANAN and TULLOCK kept the voting idea and took it over as building block of their own public choice program. By doing this, they could not only relate to the recent developments of welfare economics, but even better to the work done before by WICKSELL, namely the use of voting models and the recommendation of the unanimous principle. So while "choice" and "voting" became the common denominator of the social and public choice approaches, the use and analysis of a social welfare function became a clear line of demarcation (or even animosity) and both new schools followed their own programs.

The tenet "there is no social welfare function" seems to be still very alive in public choice and is also very closely related to the demarcation line between public choice and public finance. Although the traditional public finance approach looks mainly for efficiency gains by maximizing a simple measure of welfare, there are often extensions to this by incorporating some welfare function that allows also to consider efficiency-equity trade-offs. Because these trade-offs are stressed very often in topics of public finance some calculation of this trade-off by using a welfare function seems rightly at hand. Reacting to the aforementioned problems of a social welfare function of the ARROW-type some kind of cardinal and interpersonal indicator of utility is postulated. This indicator might represent some "real" postulation of cardinal utility or might simply be a concept of a cardinal indicator of ordinal utility, as was proposed by SAMUELSON [1977] and also used for example by BERGSON [1980]. The normative significance of welfare judgments derived in this kind of framework is mostly stated in quite modest terms, the welfare function is often only used as a kind of illustration of what would happen if the decision-maker, who ever this might be, had this or that social preference.

The rest of the paper will explore in more detail what is separating public finance and public choice. This is done here mainly in relation to the normative perspective of each "school". This does surely not mean that this perspective is the most important one if one wants to describe or explain these schools. It just means that this perspective is also a deserving way to look at both. We take up first the side of public choice (Section 2). By building on some recent debate between public choice and political economist scholars we distinguish basic elements of public choice (2.1). This leads to the aforementioned normative aspects, here we look particularly at some older and also a very recent paper of BUCHANAN (2.2) and try to isolate the normative core of public choice. Section 3 deals then with public finance, first with normative public finance in general (3.1) and afterwards more specifically with uses of the welfare function and the relations to welfare economics (3.2). Building on the blocks of Section 2 and 3 we compare in Section 4 both approaches and give some tentative answers on *how* both are normative and in what way it might even make sense to say *how much* they are normative. Some concluding remarks are given in Section 5.

2 The Public Choice Approach

2.1 Elements of Public Choice – the Positivistic Ingredients

The quotation of SINN [1999, p. 9] given at the beginning of this paper signals that public choice is often, although maybe wrongly, seen as having a characteristic positive attitude, especially when compared to traditional public finance. As mentioned already in the introduction one important element of this positive attitude has to be seen in the wide spread dictum in the public choice circle that "there is no social welfare function". This dictum is a direct consequence of the very beginning of the public choice program. And it is important that from the public choice perspective this dictum has not to be interpreted that there is something "missing" that one has to overcome somehow, but on the contrary, this non-existence is the very building bloc of public choice.

In public choice theory the non-existence of a social welfare function correlates highly with the equally strong hold of the proposition that there is no benevolent dictator. Any use of a welfare function would imply a kind of benevolent dictator (or social planner), but this figure is void of meaning and has no explanatory power for political decision-making in a democratic society. Because there is no benevolent dictator it is misleading to construct policy recommendations on the contra-factual idea that there is somehow an ideal decision-maker that needs advice for implementing even better policies. On the contrary, one has to open the black-box of politics and analyse the mechanisms that lead to political decisions, i.e. to public choices. And this analysis has to start more or less on the same premises and can therefore use the same economic tools that are employed in analysing market settings. This extension of market mechanisms to the territory of politics is central for public choice. The unifying framework for putting both spheres in one is the basic assumption that both are governed by a voluntary exchange between (more or less rational and self-interested) individuals, cf. BUCHANAN [1954]. We take this here first of all as an expression of a *positive* proposition about the real world. As a positive proposition this extension of markets to politics corresponds closely to the approach taken by WICKSELL and LINDAHL. Both built their basic public finance model around the idea that the supply and demand of public goods is governed by and large by the same kind of utility evaluations that rule also the exchange of private goods. So it is quite legitimate to see WICKSELL and (maybe a bit less so) LINDAHL as predecessors of modern public choice.

The opening of the “black-box” of politics by applying some economic calculus to the selfish utility maximizing behaviour of its political actors leads to models that allow deriving quite different results than the ones that are usually derived in public finance.

Models of rent-seeking behaviour imply mostly a sceptical view on the possibility of implementing “good” policies and ask in general for a reduction of the powers of government against the individual. A special and very drastic model in this respect is the Leviathan model developed by BRENNAN/BUCHANAN [1980]. In this model it is not so much the idea of exchange that drives the model, but the very idea of (rational) selfish political behaviour taken to its extreme. The result is a parody of the text-book case of a benevolent dictator. Every lesson from public finance is turned upside-down. From the point of modelling of political decision-making this approach is relatively poor. It seems therefore more fitting to interpret the Leviathan model as a distorting mirror or caricature of normative public finance, than as a central part of positive public choice. Although for example PERSSON/ROLAND/TABELLINI [2000, p. 1129] explicitly take both approaches, i.e. the Leviathan and Pigovian policy makers, as representatives of public finance and public choice respectively, and then “leave both the benevolent and the malevolent caricature of the almighty policy maker aside” in order to start their own new brand of “comparative politics” or “political economics” as it is termed in PERSSON/TABELLINI [2000, 2002].

In a recent controversy BLANKART/KOESTER [2006] take up criticism of public choice theory that can be found in works associated with this “new approach” of political economics, in particular they “want to investigate whether the public-choice paradigm has been replaced by a political-economics paradigm, as the proponents of the latter claim“ BLANKART/KOESTER [2006, p. 171]. In classifying the public choice paradigm they explicitly connect their view of public choice to the concept of a scientific paradigm as proposed by KUHN [1962/1970]. BLANKART/KOESTER [2006, p. 172] identify the following four elements of the public choice paradigm:

i. Basic generalizations: rational, self interested actors
ii. Heuristic: Application of economics to the realm of politics
iii. Preferred method: Positive analysis of political institutions
iv. Common goal: Normative suggestions for better economic and political institutions

All four elements are well taken and resemble much of the scientific program connected with the public choice approach. The first three elements underline the impression of a mainly positive scientific paradigm. Only in relation to the common goal a normative aspect is explicitly integrated by BLANKART/KOESTER, but even here in a very general way. But as we follow their argumentation on comparing public choice and political economics it becomes eventually clear that one of their main criticisms of the "new" school is indeed very much rooted in normative conceptions. In the critique of BLANKERT/KOESTER it is indirectly argued that the younger authors of political economics are giving up the normative core of public choice. There seems to be no normative content or the wrong normative content. In their reply ALESINA et al. [2006] wonder what this missing normative content could be and argue that their approach is first of all positive.

2.2 Normative Core of Public Choice

So let's look at the normative part of "positive" public choice. What do BLANKERT/KOESTER offer? They bring in *individual liberty*: "Public-choice scholars … assign the greatest importance to the value of individual liberty and its promotion as a criterion to evaluate political decisions and institutions" BLANKART/KOESTER [2006, p. 195]. This normative stance for individual liberty is inseparable linked to the assumption that voluntary exchange between individuals is the basic category for explaining behavior in markets and politics.

> "Based on this approach, scholars of public choice see their main task in developing arrangements that facilitate voluntary exchange. [...]
> The extent of liberty as being free from willed constraints and the ability of individuals to avoid being forced are the criteria, which follow directly from the focus on voluntary exchange". BLANKART/KOESTER [2006, p. 195]

How is the aim of being "free from forced will" is best served? Obviously, if each has to consent to any decision taken, then we would have a kind of natural guarantee for being not forced by the will of others. Therefore, postulating unanimous consent is a natural consequence of this normative position and WICKSELL is rightly claimed by BUCHANAN [1987, p. 243] "as the most important precursor of modern public choice theory".

But certainly individual liberty as such is not an easy concept for evaluating different situations. It is one thing to make clear on what ethical premises an evaluation of different situations is derived upon. But it is another thing to make clear what kind of positive basis – what kind of "measurement" – is involved in this normative evaluation. And finally there is still the question how convincing this proposed normative evaluation is compared to other normative approaches.

BUCHANAN has repeatedly explicitly addressed questions about positive versus normative statements. One older example, which from today's view seems very clearly under the influence of positivism, is to be found in BUCHANAN [1959]. Here the demarcation line between positive and normative is extensively discussed and related to the possible role of the economist as an adviser. Starting point is the thesis that welfare economics rests on a "wholly unacceptable" assumption of omniscience:

> "Utility is measurable, ordinally or cardinally, only to the individual decision-maker. It is a *subjectively* quantifiable magnitude. While the economist may be able to make certain presumptions about 'utility' on the

> basis of observed facts about behaviour, he must remain fundamentally ignorant concerning the actual ranking of alternatives until and unless that ranking is revealed by the overt action of the individual choosing." BUCHANAN [1959, p. 126]

So any statement about efficiency must be a subjective statement of the economist because it rests on premises about subjective utility. The very positivistic attitude of this statement is a reflection of the (welfare) economic discussion at that time. Positivism meant that everything had to be stated in terms that are directly interpersonal provable through observation. In consequence, the efficiency criterion has to be replaced by a criterion of "presumptive efficiency". The political economist "does not recommend a policy A over policy B. He presents policy A as a hypothesis subject to testing. [...] The conceptual test is consensus among members of the choosing group, not objective improvement in some measurable aggregate" BUCHANAN [1959, p. 127]. This advice has still to be seen as "positivistic", although in a different setting. While standard positive economics relates to observable economic quantities, positive political economy relates to propositions about "observable behaviour of individuals *in their capabilities as collective decision-makers* – in other words in politics", BUCHANAN [1959, p. 128].

Comparing his approach to the alternative of a social welfare function BUCHANAN concedes that both somehow try "to establish a role for the economist qua scientist beyond positive economics narrowly defined", BUCHANAN [1959, p. 133]. But where his approach sticks to the individual values, the Bergson-Samuelson welfare function introduces some external ethical values. And although these external values aggregate individual preferences it does not follow that the individual values really count. The individual values are only observable through the choice of the individual and therefore every evaluation that wants to respect these values has to evaluate ”in terms of the choice process itself” [p. 134]. In this sense then, choices are not only a “test” for a supposed ranking of situations but the very process of choosing itself becomes the *object* of evaluation.

Besides the role as positive economist, be it in economics narrowly defined or in political economy, their might also be a more normative role for the economist where he even “choose to utilize certain welfare function constructions in his task. But this behaviour must be sharply distinguished from his professional role, either as a positive economist or as political economist” [p. 138].

Summarizing the argument, BUCHANAN argues for a threefold approach:

i. Analyzing economic consequences in a material setting
ii. Proposing changes that would be supposedly voted for unanimously
iii. Personal (ethical) opinion

While the first two approaches are considered as falling in the sphere of positive economics, the last approach is not considered as part of any professional economics at all. What makes this position of BUCHANAN a bit difficult to assess is the fact that, on the one hand, the positivistic perspective is underlined, but that on the other hand, the very position itself, namely that it is only by actual unanimous consent that we can find out if there exists a *normative* superior situation, seems totally normative. And even if this *normative individualism* is for example more directly spelled out in the postulation of individual liberty as the benchmark for any evaluation, like this is done in BLANKARD/KOESTER [2006], questions remain. The conception presented so far is not only normative, but because of its procedural approach furthermore very open in its content, and therefore maybe also not very compelling from a broader ethical point of view.

From an ethical point of view the emphasis on the procedural aspect of evaluation comes close to a deontological position. The point here is not the difference between an evaluation of specified outcomes versus the evaluation of rules (or institutions) according to the presumed outcomes of rules, but the difference between judging rules according to their outcomes or according to some internal value of the rule itself. The position of BUCHANAN seems to be that he does not rule out any consideration of patterns of outcomes, i.e. any consequentialism, but that he nevertheless proposes a kind of deontological evaluation that allows only some very basic considerations of consequences to be incorporated in the evaluation of rules. In this respect BUCHANAN – but maybe not public choice theory – comes quiet close to HAYEK's criticism of the pretension of knowledge and the concept of an evolution of order that is not the result of plan, but of a spontaneous order that is not conceivable before it actually arises.

The deontological character of this ethical position is also addressed in a recent paper on the homo politicus, cf. BUCHANAN [2008]. Coming to the question of defining the interest of community, here again, quite similar to the argument in BUCHANAN [1959], the starting point is the "scientific emptiness of the whole utilitarian evaluative structure [that] was exposed early in the century by Italian scholars, notably Barone and Pareto". And it was then later "in the 1930s that the developments in scientific method effectively undermine utilitarianism among English language intellectuals" BUCHANAN [2008, p. 471]. There was some quest to keep the utilitarian program by using some kind of social welfare function for giving advice to the homus politicus, but after ARROW this seems hopeless. There is no general interest that does not depend on norms that vary by persons. As a way out a kind of deontological Kantian prescription is proposed, where we do not have to order end-states, but are satisfied by ruling out certain frames of behaviour that would allow discriminatory advantages for some group members.

> "What I am suggesting is that, so defined, homunculus politicus may have some operational usefulness, at least in a normative sense. By comparison with efforts to define community *that require some metric*, the Kantian norm reduces the potential range of disagreement to a factored-down level." BUCHANAN [2008, p. 473]

If we sum up the arguments given, what is then the normative core of public choice theory? A fundamental line seems to be the opposition against any kind of metric for comparing entitlements that take account of descriptive aspects of situations or end-states. Because of disagreement on what could serve as a metric and because of fundamental problems in making conceivable metrics operational any kind of metric for comparing individual orderings or values has to be abandoned. Institutions, be it existent ones or possible reforms, should instead be checked by deontological criteria. Fundamental in this respect is the side condition or threshold of ruling out discriminatory behavior of group members. This side condition functions as a minimal requirement that "good" institutions should meet. This condition can also be interpreted as a way to protect individual liberty, in the sense of freedom from coercion that is compatible with the liberty of others (Isaiah Berlin's negative concept of freedom or liberty). The choices between procedures that are not ruled out by these minimal requirements are not covered by this normative concept. Clearly, there are positions to be held about the possible outcomes of these different procedures, but these positions or evaluations are not inside the normative frame as it is developed by BUCHANAN or as it is proposed by the public choice camp. These evaluations seem to belong to other roles than that of the political economist, no matter whether they are termed normative or just as an expression of a personal point of view.[1]

3 A Look at Public Finance

3.1 Normative Public Finance

The roots of public finance are to be found in the business of operating the state from an economic perspective. This meant first of all to analyse ways to generate revenues. This could be achieved by varied forms of taxation, debt or some kind of public enterprises. Second come questions on how and for what the revenue could be spent. This simple dichotomy of *taxation* and *expenditure* was for a long time the way to look at public finance, although nations underwent in the 19th and 20th century dramatic changes, reflecting the rise of democratic governments. A more modern picture of public finance was introduced by MUSGRAVE [1959]. He distinguishes three different branches of public finance, namely the allocation, distribution and the stabilization branch. All three branches can be seen as special tasks of government in a market-oriented private sector economy. Government functions as a complement to private markets. This complement is needed in so far markets might possible fail with respect to one of the three branches. While the stabilization branch came in the 1970s and 1980s under severe attack and is often dropped in more recent textbooks on public finance, it is fair to say that the MUSGRAVE approach as such is after fifty years still

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1 "As suggested here, homunculus politicus simply walks away from this question. The remaining homunculi, those that reflect the egoist and the altruist, along with other motivating forces are left to determine some final behavioral outcome. Homunculus politicus remains indifferent among the possibles so long as the side conditions are met." BUCHANAN [2008, p. 473].

alive and quiet standard in public finance, cf. ATKINSON et al. [2008, p.156f]. One could even argue that the current debate about instruments for alleviating the economic crisis seem to bring the "missing" part again back in closer contact to public finance, cf. AUERBACH [2009] .

A common critique of the MUSGRAVE-type of public finance argues that it "its policy analysis is mostly normative and abstracts from the underlying political institutions", PERSSON et al. [2000, p. 1122]. From a public choice perspective it is exactly this mixture of not really probing in public decision mechanisms *and* using external evaluation standards that make public finance even "more" normative. The real public decision process is sidestepped by taking government as one coherent decision-maker. This decision-maker is furthermore modeled as being benevolent. And then this "twofold unreal" decision-maker is given advise by reference to a normative performance measure. Even if one accepts this performance measure from an ethical point of view, it would still be hard to accept the frame in which this normative standard is applied. The highly idealized setting makes recommendations of what should be done less convincing. Or, put another way, makes the supposed ethical position more special and therefore its content "more" normative.

MUSGRAVE does not deny that his approach to public finance is normative, but defends it as quite reasonable. The model of government is a kind of "ideal type" in the sense of WEBER. This type is not a description of reality, and it is clearly also not meant as an "ideal" of government. But it is "fruitful to define a normative goal and to model how actions should be shaped so as to meet it", MUSGRAVE [1999, p. 35]. This model is a "normative abstraction" that helps to think clearly about "first-best solutions" in order to help identify feasible solutions. MUSGRAVE clearly conceives his approach as normative in the double sense of applying certain normative goals *and* as relying on the normative abstraction of an ideal type of government. This normative character is also made clear, for example, in MUSGRAVE [1959, p. 4]: “Our normative model of political economy is not designed to be realistic in the sense of describing what goes on in the capitals of the world.”

That public finance is at least in part normative seems to be not much disputed by public finance scholars. Although, compared to the positive part of public finance, this part is the relatively smaller one. One example, where the normative aspect is very directly made clear, is the textbook on public finance by TRESCH [1981]. Here already the very title “Public Finance. A Normative Theory” makes the perspective obvious. The normative theory is basically about the optimal design of tax and expenditure policy, whereby particular emphasis is laid on second-best models. Four normative issues are distinguished:

i. Legitimacy: What areas for government?
ii. Decision rules: What rules government ought to follow in each area?
iii. Finance: How should government finance expenditures?
iv. Fiscal federalism: Which task should each government perform?

These issues and the applied methodology still capture quite well what can be found in leading journals on public finance today. This holds also true for the “philosophical underpinnings” given to the proposed normative approach.

The question of *legitimacy* is answered by the market failure criterion. Because the problem of second-best is explicitly addressed the application of the market criterion is not so straight forward as in a simple first best comparison, but the approach is still close to the one followed by MUSGRAVE. Tied to the market failure criterion is the basic value judgment of consumer sovereignty. Markets are “good” because they take individual preferences into account, situations of market failure should therefore be governed by the same principles as markets. Government imitates markets where they fail, “government qua government is supposed to be nonexistent”, TRESCH [1981, p. 5]. Admittedly, because of this detached view on government the normative theory is “somewhat more distant from the positive theory than one might desire, since government administrators are constantly interjecting their own preferences into the decision-making process”, TRESCH [1981, p. 5]. Similar to MUSGRAVE this possible weakness of the approach is defended, but different to MUSGRAVE this is done by referring to the richness and the interesting problems this approach generates.

The allocation of resources can be judged by the efficiency criterion, but this still leaves open questions concerning the distribution of, for example, well-being or income. While the market criterion is tied to consumer sovereignty, this cannot hold for redistributions (at least when we think of redistributions beyond those that are compatible with Pareto-optimal redistributions). So with respect to (re)distribution TRESCH [1981, p. 9] argues for abandoning the strict rule of consumer sovereignty: “The government must impose a set of preferences to resolve distributional issues.” It is conceded that this leads to some severe problems on how these preferences should be formed. There is no consensus on distributional norms that is comparable to the acceptance on the efficiency norm. So what is to do? The argument given by TRESCH [1981, p. 9] is typically for something like the standard normative public finance approach on this issue. First, it is stated that one should not drop the aspect of distribution. Second, it is argued that some distributional preferences of the government should be taken as given. “The spirit of the analysis is: ‘Have the government provide us with a set of distributional preferences, and we will tell it what it should do.’”

3.2 Equity-Efficiency Trade-off and the Social Welfare Function

It seems fair to say that the equity-efficiency trade-off is in the centre of much of the normative thinking in public finance. This trade-off is mostly modelled with the help of some kind of individualistic social welfare function. Following its originator BERGSON this function can be interpreted as the social preferences of an “ethical observer” who respects the value proposition of the (strong) Pareto-principle, but goes beyond this principle when comparing situations where some loose and some gain (as measured by the ordinal preferences of the individuals). Going beyond the Pareto-principle presupposes some kind of interpersonal comparisons and “no extension of the methods of measuring utility will dispense with the necessity for the introduction of value propositions to give these utilities a common dimension”, BERGSON [1938, p. 19].

There are different ways of interpreting the value propositions needed to apply a social welfare function. We can distinguish (at least) roughly three ways that are often not easy to separate: From public finance perspective the first and simple way is to take government as the “ethical observer”. This fits perfectly well with the kind of “black-box”-perspective on government that is often assumed in public finance models. In principle this view can also be joined with a positive perspective on government. In this case one would aim at revealing something like the preferences of government through analysing choices of government, cf. BASU [1979]. A second way to look at the social welfare function is to interpret it as exposing some “common held believes” or values toward the equity and efficiency trade-off. Again this opens up positive questions, for example, what believes concerning distribution are actually held in the public. There exists a large body of literature in experimental economics that is concerned with fairness motives in distributional games, cf. CHARNES/RUBIN [2002], ENGELMANN/STROBEL [2004]. This literature is mostly interested in finding out the role of social preference in a game theoretic interaction, but at least some results could also be taken as behavioural indicator of distributional preferences. Another positive approach in this context can be seen in surveys and econometric models on distributional preferences. Instead of supposing that government optimizes taxation according to a welfare function one can ask people about their tax preferences and then compare actual tax schedules with stated preferences, cf. SINGHAL [2008] and CORNEO/FONG [2008]. Finally there is a third interpretation of the social welfare function. In this case the welfare function is taken as the result of a well argued normative judgment on ethical values.

All three interpretations might coincide, we would then have the case, where government acts on the common held values or social preferences of the public and these values again reflect well argued normative judgments. But also the three interpretations might in different ways fall apart. From a public finance perspective maybe a mixture of the first two seems mostly at hand, but there are also some discussions of the welfare function that are more in the spirit of the third interpretation. While the first two might also be joined with clear positive questions on values, the third approach is more in contact to questions on social justice from an ethical perspective. The third approach has nevertheless also its own *positive* sphere. Besides the normative aspect of finding good arguments in favour of a specific ethical position, there is also the question on what informational basis these arguments should rest. This informational basis is then the “positive sphere” of the normative judgment, whereas the question of how to “aggregate” this information is a separate normative task. Taking care of both elements of a normative judgment, i.e. the information and the aggregation, is most powerful argued for by SEN, cf. for example SEN [1977, 1999], and see also FLEURBAEY [2003].

The social welfare function of the Bergson-Samuelson-type rests on cardinal indicators of ordinal utility. So there must be ordinal utility information and some convention for a cardinal measure for comparing these utilities. One can argue that it is hard to gather information about ordinal utility, but at least for BERGSON and SAMUELSON this information belongs clearly to positive economics. In this sense it is *not* the ethical observer who uses "*his own estimate of his subject's value scales*" BUCHANAN [1958, p. 126]. The observer uses the utility information as measured for individuals and adds his own cardinal valuation for comparing the utilities.

The ordinal utility measure might not be an accurate measure of cardinal utility, or of happiness or satisfaction, and therefore other approaches that are based on other informational sources might be better suited as inputs of normative judgments. But this again is not the same as arguing that "public economists circumvent the difficulty by stating that individual utilities should not necessarily reflect agents' happiness or satisfaction but, rather, they reflect the ethical choices of the planner, that is, how the planner views the agents' happiness or satisfaction" MANIQUET [2004, p. 128]. If information on happiness of individuals is deemed relevant for a normative judgment, an ethical planer cannot substitute this information simply by putting in his own view of the happiness of the individuals.

It was already mentioned in the introduction that the development of the social welfare function of the BERGSON-SAMUELSON-type is just one reaction to the fundamental problems of measuring utility as they were conceived after the ordinalist revolution in the 1930s. As LITTLE [1950, p. 82] remarked quite early this view "represents a clean break with the utilitarian tradition of English economics. Its supporters [Bergson (1938), Samuelson (1947)] deny, in effect, that welfare economics need be, in any way, a study of happiness.“ But obviously this was for a long time a plausible and accepted reaction to the problems of concepts like “utility” or “economic welfare” as they very used by the “old” welfare school and laid down in particular by PIGOU [1932].

More than 50 years later the picture looks naturally a bit different. Now there are more arguments to be found for broadening the concept of welfare. Most of these arguments point clearly in the direction of a richer positive informational content of “welfare”. Some argue even to replace “welfare” for a more resource-oriented view of what has to count for distributional concerns from an ethical point of view. Considering the informational background of a normative evaluation process one can distinguish different approaches according to what kind of concept is seen to be basic:

i. “Choice” (hypothetical or actual choice): This leads for example to problems of preference revelation in voting schemes, contingent valuation and hedonic price functions.
ii. “Wellbeing”: The idea could here be to have a kind of objective measurement of wellbeing by using some plausible indicators of wellbeing, for example real income, life expectancy, health indicators, quality and quantity of room to live, nutrition etc. This comes close to the concept of *quality of life*. But we could also have a more “subjective” measurement resting on questionnaires, interviews etc. that try to figure out the amount of personal satisfaction. This comes close to *individual welfare* and to the concept of *happiness*.
iii. “Rights”, “primary goods”, “and capabilities”: These concepts are from a welfarist perspective seen more as kind of instruments for living a decent and

happy live. Others see them as a kind of scale for judging the justice of a society concerning the allocation of resources.

From a welfarist and utilitarian perspective NG [2003] demands “a more complete welfare economics” by taking the general concept of “welfare” one step further to the direction of ultimate human goals, because “ultimately, it is the amount of happiness that counts” NG [2003, p. 309]. NG argues that in an overdrawn attempt to be precise modern economics eschewed all aspects of a more psychological content of utility and changed to a strict choice or preference oriented look at utility. While this was on its own quite successful, it left a lot of the older concepts out of the picture, and by focusing on preference alone, welfare economics lost some of its possible relevance. Now there is a growing awareness of this, and so one tries to bring “real” individual welfare back in, but now on a more solid fundament of experimental psychology and economics. For a use of information on well-being that is grounded in experimental economics, particular with respect to models of bounded rationality, argue for example KAHNEMANN et al. [2004].

Another route is followed by those who argue for a more resource-oriented view of welfare economics. This route is strongly influenced by the conception of “Justice as Fairness” by RAWLS. In this conception some basic resources and rights, called “primary goods”, are in the focus of distributional justice and not utility or welfare. “Fair shares of primary goods are not intended as a measure of citizens’ overall expected psychological well-being, or of their utility, as economists might say. Justice as fairness rejects the idea of comparing and maximizing overall well-being in matters of political justice” RAWLS [1985, p. 258]. This idea of exploring the resource side – so to speak the inputs, not the outputs – in deciding on matters of social justice was taken up (and also criticized) in a large body of literature. One example is the use of the concept of equality of opportunity. For example, ROEMER [2003, p. 455], starts his overview of work in that field with the statement that “probably the most universally supported conception of justice in advanced societies is that of equal opportunity” and goes on to develop some precise definitions and applications of this concept.

The broadening of the informational base of utility in the direction of happiness is a general direction of much of recent research in more behavior oriented economics, cf. FREY/STUTZER [2002], but seems up to now not be taken up very much in public finance. Although, for example, the Journal of Public Economics recently devoted a special issue to this topic, cf. BESLEY/SAEZ [2008]. In contrast the concept of equality of opportunity is part of the mainstream literature on education and public finance. Following ROEMER equality of opportunity is taken here as a way to derive some normative plausible advice on how best to allocate resources in the education system, cf. WÖSSMANN [2008].

4. Comparing Public Choice and Public Finance

An important normative separation of the public finance and the public choice school can be traced back to a different reaction to the impossibility theorem of ARROW [1951]. ARROW took up the quest of BERGSON on a possible foundation for a social welfare function. He started like BERGSON from the Pareto principle and the restriction of utility information to only ordinal preferences. For ARROW this meant that the social ordering must be something like the result of a voting procedure. In his axiomatic approach he analysed the possibility for such a voting scheme. He did not just analyse different voting procedures as such, instead he analysed in his new axiomatic frame "voting" in a much more general way than before, allowing any kind of decisive sets for specified alternatives. The combination of his axioms led to the result that the ordering must be "dictatorial". The axiomatic approach allowed ARROW to lay down the employed value propositions, i.e. the conditions which the welfare function should obey, very clearly. The approach further more opened a new field of research, namely social choice theory. Nevertheless from welfare economic perspective two aspects of the approach – beside the different analytical technique – put it somewhat out of the previous context.

First, ARROW used a very general approach that did not really distinguish between two quite different frameworks for social preferences. One derives social preferences from choice, here the social welfare function is seen as decision mechanism, the other interprets social preference as a result of a social welfare judgment, cf. SEN [1995, p. 5]. Both settings are quite different, and it can be seen at the same moment as strength and a weakness of social choice theory that it offers a unifying framework for both.

Second, and more specific, the voting approach might be useful in many settings, but in a welfare economic context with distributional issues it seems less at hand. So even SEN argues that, looked from welfare economics, voting seems not a very convincing approach and asks rhetorically if we are "in the right territory to make social welfare judgments through variants of voting systems?" SEN [1999, p. 355].

Looking from the public finance perspective this means that one sticks mainly to the basic approach developed by BERGSON and SAMUELSON for welfare economics. The papers by SAMUELSON on public goods offer a good example of the use of the welfare function in public finance. Other examples are the literature on optimal taxation or, for the case of more applied studies, the literature on the use of distributional weights in cost-benefit analysis and environmental valuations. The use of the welfare function in all these cases seems mostly to be a flexible way to describe distributional values while accepting the norm of the Pareto principle. The use of the welfare function is defensive in that one often immediately after its introduction concedes that the proper form of the function is open to question.

Complete different is the reaction from a public choice perspective. Similar to ARROW voting is taken seriously as a fundamental way to "judge" the goodness of states. Therefore mechanism design is the preferred look on social choice, while deriving social preferences from some welfare judgment is taken as either a sign of supposed omniscience or ideology. Constructing a social ordering of situations is considered as a misleading analogy between individual and social behaviour and between individual and social rationality.

The normative conception of public finance proofs especially situated if one considers the role of government as one that needs policy advice and functions more or less by good will,[2] whereby the good will of "government" is here seen more located in the bureaucrats than in the politicians. On the other hand the normative conception of public choice seems at hand if one wants to advise voters on an institutional choice that respects individual freedom.[3] The voter has to be guarded not only against other groups of individuals, but even more against government, and here especially against bureaucrats. The difference in "sentiment" towards government, at least with respect to MUSGRAVE and BUCHANAN, becomes very clear in their mutual exchange of thought and comments in BUCHANAN/MUSGRAVE [1999]. While MUSGRAVE (p.

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[2] On MUSGRAVE's "positive and optimistic view on government" compare ATKINSON et al. [2008, p. 157f].

[3] BUCHANAN [1967, p. xiii] asks in a very fundamental mode: "Are we willing to chose 'experts' who will decide for us? Are we prepared to allow government 'for the people' but not 'by the people'?"

228) states that the “continuous pounding given to government by Professor Buchanan and other critics” has added to the disrespect of government. BUCHANAN (p. 241) underlines his discomfort: “I would hate to live in a world where one has to deal with a bureaucrat who has authority and therefore enjoys exercising his authority by making us to be subservient.”

The different, if not to say contrasting or even clashing, view on government is not simply to classify as difference of normative value judgment. It has certainly a strong value connotation, and, as was shown in Section 2 and 3, it is connected with the normative background of each school. But it can be also interpreted, at least from a more naive point of view, as a positive statement about how government functions. This positive statement would certainly depend on experiences with concrete forms of political institutions around the world, be it now or in the past. In this respect it must be admitted that the focus on institutional design of public choice theory allows, at least in principle, a much more direct approach, than the institutional parsimony that is often found in public finance. This is maybe one reason why public choice makes on first sight a “less” normative impression. One could argue that taking government as a black-box is part of a secondary value judgment. This can be either seen as a way to take over (too uncritically) values of the government, or as a way to masquerade more easily one’s own values behind government.[4] With respect to both dimensions, normative view and institutional realism, like it is sketched in Figure 1 below, that would mean that one would take the upper part of the matrix as “more” normative than the lower part. But as was argued in the sections above there is also a clear normative element in public choice.

4 “So long as the economist proffers his advice as if some benevolent despot is listening to him, he may be much more willing to devote his efforts to persuasion based ultimately on his own personal private scale of values,” BUCHANAN [1975, p. 391]

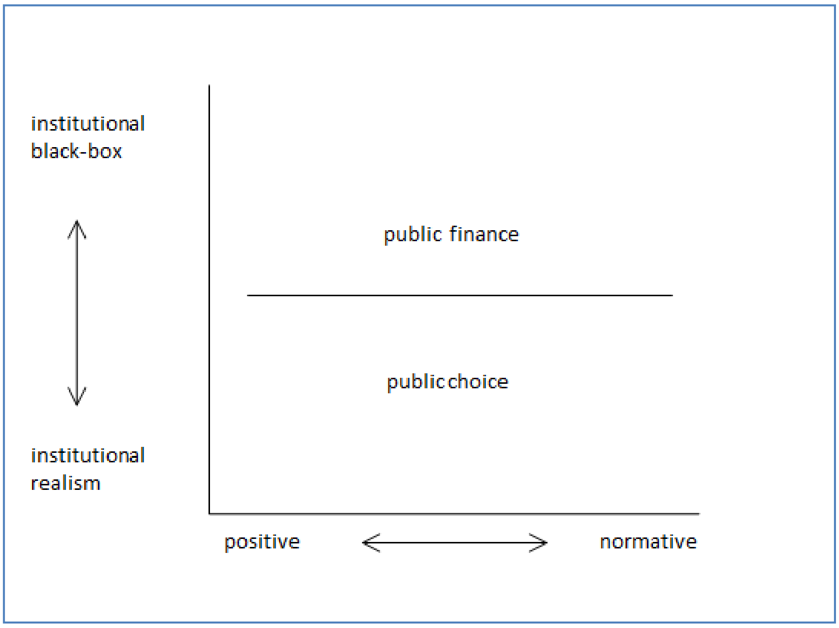

Figure 1: Classification matrix

From a broader welfare economic perspective one can draw something like a “welfare” map[5] as sketched in Figure 2. This map allows one to position different normative approaches to get a rough idea of them. Following SEN we can distinguish the informational basis and the way to “aggregate” this information as basic ingredients of an ethical position on social or political justice. In Figure 2 the informational basis is differentiated with respect to two dimensions. One is the “positive” aspect of measurability, the other the normative aspect of supposed ethical relevance. The sketched position of different pieces of information with respect to both dimensions is certainly highly disputable and depends on basic normative conceptions. But if we want to compare public finance and public choice along the lines of Figure 2 than public finance would presumably represent the broader view of this picture and public choice a more specific part of it. So it could be argued that public choice represents a more distinctive and therefore “more” normative position compared to public finance.

5 The term „welfare“ is insofar misleading as non-welfarist informational aspects are also taken into account.

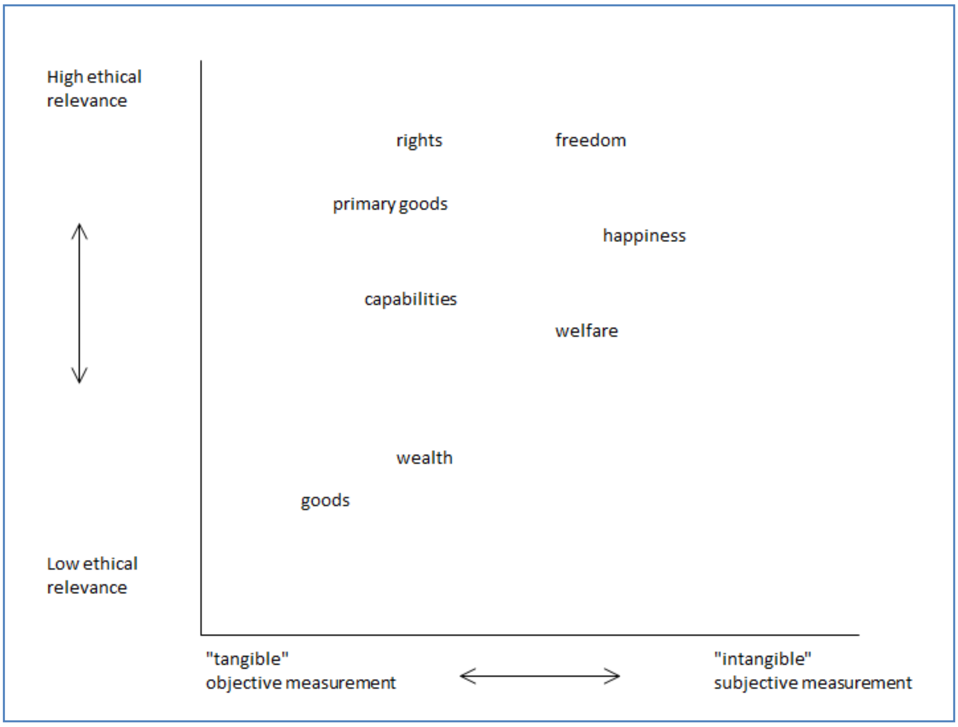

Figure 2: Informational "welfare" map

Let's consider finally the quotation at the start of this paper about normative public finance and positive public choice (or public finance of BUCHANAN type). Clearly both have their part of normative economics, but also clearly in very different ways, which makes it not easy to really compare and do justice to both. In this sense there is maybe really something like a "switch of gestalt".[6] But at least four differences are of relevance:

i. The level or institutional difference: Deciding on rules (institutions) versus deciding on policies (inside institutions).

ii. The government difference: Seeing government first of all as a possible source of an infringement of individual liberties versus seeing government as a possible powerful instrument for welfare enhancing policies.

6 This metaphor was prominently used by KUHN [1962/1970] in his history of uneven scientific progress and it is also used by BUCHANAN [1967, p. xv] in introducing his approach to public finance.

iii. The individual difference: Value rests fundamentally in choice or value rests in some variant of utility (or resources).

iv. The social justice difference: The mutual extension and protection of liberty mark the basic challenge for any society or efficiency versus equity mark the basic choice a society faces against scares resources.

Comparing public finance and public choice makes clear how different the normative routes of both approaches really are. But it shows also that none is really “less” normative in degree – if something like this makes sense at all – than the other. Both are simply normative of a different kind. Both deserve also for certain their place in public economics, positive and normative, and are maybe best challenged when in fruitful exchange and competition.

5 Concluding Remarks

BLANKART/KOESTER [2006] interpret public choice as a paradigm in the sense of KUHN. In this they also follow approvingly the idea of KUHN [1962/1970, p. 176] that a paradigm is not just a group of related ideas, but first of all a group of people, i.e. a scientific community. In the postscript to the first edition KUHN [1962/1970, p. 176] argues even stronger that “scientific communities can and should be isolated without prior recourse to paradigms; the latter can then be discovered by scrutinizing the behaviour of a given community’s members.” From this more sociologist point of view it should be interesting to look in more detail at the differences and overlap of the public choice and public finance “communities”. The comparison of both schools could also be enhanced by some quantitative analysis of the content of leading journals in both fields. But it would be also worthwhile to compare in detail actual “advice given” in respect to specific topics like income taxation, pension schemes or (limiting) government expenditures. In order to compare the normative foundations of public choice and public finance this paper looked only at a small selection of possible sources by analysing in more depth some representative literature. But even this gives a picture of a more entwined and almost complementary relationship of the normative sides of both schools of research than what one would expect by just looking at them at face value.

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