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PUBLIC SECTOR ECONOMICS

Theory, Policy and Practice

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Preface

The aim of this book is to produce a rather more comprehensive, wide-ranging treatment of public sector economics than is usual. It deals with theory, policy and practice within the broad context of political economy and attempts a more general integration of them than is found in most other texts. It recognises that students invariably study other subjects simultaneously with economics and so attempts to provide more of a multidisciplinary approach than is usually the case.

The level of analysis is aimed at second and third year students taking degrees in public administration, public sector management, accountancy, social policy and social science. It provides only as much economic theory as is required for the student to gain a reasonable understanding of policy and practice in the UK during the 1980s and 1990s.

Most existing texts provide only very brief coverage of the practical aspects of policy. Where they do discuss policy implementation, they tend to retreat behind non-specific comments and points of principle. This book does neither. It provides a cogent appraisal of policy and practice in a readable and policy-relevant way. Hopefully it will enable the reader to appreciate the arguments both supporting and questioning such developments as the reform of taxation and social security, of trade union legislation, of local government and the civil service and of former state industries through privatisation and regulation.

The very nature of 'public' is being so fundamentally changed that the conventional public sector economics textbook also has to be made less technical and mechanistic and more appreciative of political economy. An attempt is made to show how alternative economic theories become politicised and are used to provide intellectual justifications for ideological, moral and ethical beliefs. A serious effort is also made to make the practical detail relevant to the issues being discussed, in order that the student might appreciate the theoretical and conceptual underpinnings of policy and practice.

Chapter titles and subheadings avoid use of economists' jargon in an attempt to make the book more immediately comprehensible to the browser of contents pages and more suitable to students of multidisciplinary undergraduate programmes. With the exception of the last two chapters, in-text references are avoided in order to expedite reading. Further reading is suggested at the end of each chapter.

Some of the traditional areas of public sector economics are excluded (e.g. cost-benefit analysis) because they do not directly underpin an understanding of the development of policy and practice. However the text

does include general topics that are not treated extensively in other public sector economics texts (for example charges), and it also provides detailed case studies of nationalisation/privatisation, water and compulsory competitive tendering.

Part I deals almost exclusively with microeconomic theory. Chapter 1 provides a critical appraisal of the methodological approach adopted by economics in order that the student may appreciate the strengths and limitations of economic theory relating to the public sector. Chapter 2 sets out the efficiency argument for allowing perfectly competitive markets to function and provides the broad efficiency rationale for government intervention based on 'market failure'. Whilst Chapter 2 provides the efficiency rationale for intervention, it does not specifically explain the growth of public expenditure. Hence Chapter 3 examines the alternative economic theories of public expenditure growth.

Public expenditure has to be financed by taxation, borrowing or charges. Each of these sources of finance may lead to economic effects that counteract the economic efficiency benefits expected from government intervention. They are considered in the following three chapters. Chapter 4 examines the *prima facie* efficiency and welfare cases against taxation (unless used to correct market failure). Chapter 5 considers the possible adverse economic impacts of government borrowing to finance budget deficits. Chapter 6 reviews the economic case for charges and considers the subsidies often associated with them.

Part I is completed by Chapter 7, which reconsiders the validity of the assumption of benevolent government intervention in dealing with the problems of market failure. In particular it reviews the economic arguments concerning excessive government and the need to restrain the growth of the public sector.

Part II provides a detailed analysis of the UK Conservative government's economic policy and practice for the public sector during the 1980s and early 1990s. It illustrates the relevance of the theory in Part I.

Chapter 8 outlines the development of supply-side policies intended to increase the flexibility of aggregate supply. Chapter 9 considers the attempts to control the growth of public expenditure and the implications for individual expenditure programmes such as social security. Chapter 10 examines tax policy and practice and critically appraises possible reforms, for example the use of 'ear-marked' taxes for health. Chapter 11 deals with public sector borrowing and public debt. These last three chapters look at UK developments in the light of experience in other developed countries. Chapter 12 assesses the implications of economic restructuring for the distribution of income.

Part III contains case studies that provide detailed practical illustrations of the integration of the theory of Part I with the policy and practice of

Part II. The common theme of all three chapters is privatisation. Chapter 13 compares and contrasts the cases for nationalisation and privatisation of major industries. It also considers the rationale for regulation (subsequent to privatisation) and considers alternative regulatory arrangements. Chapter 14 illustrates the applicability to the water and sewerage industries of market failure concepts, the economic theory of pricing, and privatisation. Chapter 15 provides a case study of compulsory competitive tendering in the provision of public sector services such as refuse collection. It demonstrates how greater competition can be introduced for services that remain within the public sector.

Having read this book, it is hoped that the student will have a much broader understanding of the nature of public sector economics. It is not merely a heavily theoretical and abstract area of intellectual enquiry. It is also an area of study that is directly relevant to our everyday lives. It affects the buses and trains in which we travel, the workers who empty our bins, the gas and electricity delivered to our homes, even the water coming out of our taps! It affects the taxes we pay to central and local government, the charges we pay at the local sports or leisure centre, the social security benefits we receive. It affects the agencies with which we register our cars or motorcycles or to which we apply for passports. Whether we realise it or not, public sector economics is not confined within the covers of a textbook. It is out there, influencing the small and seemingly insignificant details of our everyday lives.

STEPHEN J. BAILEY