

Public Economics: Principles and Practice

Preface to 3rd Edition 2012

Public economics is the study of the role of government in the economy. This study includes nearly all aspects of public expenditure and finance and government economic policies. By convention, it does not include macroeconomic management which is generally treated as a separate subject. Thus, public economics may also be described as the study of the role of government in economic efficiency and distribution.

In the language of economics, the study is both positive and normative. The positive part is the study of how government actually affects the economy. The normative part is the study of how government ought to affect the economy. These studies inevitably involve elements of political science and moral philosophy respectively.

In the preface to his influential book, *The Economics of Welfare*, Arthur Pigou observed nearly 100 years ago that: 'The complicated analyses which economists endeavour to carry through are not mere gymnastic. They are instruments for the betterment of life.' This view motivates many of us who work in the field of public economics. Our fundamental goal in studying public economics is to understand both how the arrangement of economic affairs in a country, whether by markets or by government, affect the welfare of individuals that make up society and how these arrangements can be improved. This study has been a central part of the study of economics or of political economy at least since the publication of Adam Smith's famous book, *The Wealth of Nations*, in 1776. Indeed, it is hard to think of a more important and topical field of study in the social sciences.

Content of *Public Economics: Principles and Practice*

In *Public Economics* I attempt to provide an understanding of the whole field of public economics. This includes the study of the role of markets and of government in the economy, methods of economic evaluation and their applications to public policy, the political economy of government policy making, the principles and practice of public expenditure, policies for social assistance and income redistribution, taxation principles and practice, and multilevel systems of government.

As is customary in public economics, the discussion is based on microeconomic principles. The content of public economics is determined more by its subject matter than by the introduction of new economic methods of analysis. A theme of the book is that basic economic principles apply to government as they do to markets although not always in quite the same way.

I also try to convey both the rigorous and consistent principles that underlie the economic approach to public economics and how these principles can be applied to practical issues. The principles and the practice are complementary. Without the principles, public policies would be poorly based. Without the practical applications, the principles would be of little interest or use. I hope that this book will help readers understand and appreciate how good economic policies can enhance the welfare of the communities in which we live.

In its structure and major content, this third edition is similar to the second. But, in parts, the content has been significantly revised. The world has changed remarkably in the last five years. There is much less

trust of markets following the global financial crisis and yet globalising market forces are stronger than ever. Also, in recent years, both the amount of economic data available and the volume of empirical studies have increased significantly. I have tried to incorporate an understanding of these contemporary forces and changes, as well as other technical revisions, into this book.

Readers of *Public Economics: Principles and Practice*

The book is written as an introduction to public economics. I expect that most readers will have studied economics for one or two years before undertaking a study of public economics or public finance. However, I have tried to produce a book that will also be accessible in the most part to readers with less background in economics, and interesting to those with more knowledge of economics. Readers in one or other of these categories may find selected parts of the book of interest.

The book will doubtless be of most interest to Australian readers, or Australian-based students, because I give mainly Australian examples. However, I also provide international comparisons throughout.

For teachers of public economics who use this text, PowerPoint slides and answers to the discussion questions are available from the publisher.

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