Richard A. Musgrave, 96, Theoretician of Public Finance, Dies. (1911-2007)

By [MARY WILLIAMS WALSH] JAN. 20, 2007

Richard A. Musgrave, an economist who has been called the father of modern public finance, died Monday in Santa Cruz, Calif. He was 96.

He died of natural causes, said his wife, Peggy Brewer Musgrave, also an economist.

Mr. Musgrave took about 20 years to conceive, write and publish the 1959 work for which he is best known, “The Theory of Public Finance,” an analysis of how governments allocate resources and respond to social needs.

“It still stands unchallenged,” the economic historian Mark Blaug wrote decades later. “Anyone with a question in the theory of public finance can be told even now, ‘it’s all in Musgrave.’ ”

Before Mr. Musgrave’s research, most theoretical work by British and American economists was geared toward understanding the behavior of prices, supply and demand as they interacted with other market forces. Governments played a secondary role, stepping in mainly to fill gaps when the markets failed.

Mr. Musgrave had a different view, his wife said. He saw the government as having an important economic role and developed a theory on the way taxes and other factors interact in areas where goods and services — roads, schools, courts and national defense, for example — were best provided by the government.

In essence, Mr. Musgrave's theory broke down governmental economic activity into three parts: the allocation of resources; the distribution of goods and services; and the stabilization of the broader economy.

The theory paid particular attention to the process of determining what people want and need in the absence of a pricing system.

In a market economy, for example, prices can be a good indicator of demand, but such information does not exist in the public sector, where consumers receive many goods and services without paying for them directly. By developing a theoretical understanding of how choices are made in that environment, Mr. Musgrave hoped to help governments perform more effectively.

His approach has been praised for its insights as well as its success in taking murky, complicated real-world situations and distilling them down to comprehensible patterns.

"Again and again Musgrave succeeds in showing that longstanding puzzles and confusions in the theory of public finance are dissolved once they are classified in accordance with this scheme," Mr. Blaug wrote in "Great Economists Since Keynes," a collection of profiles of 100 influential economists of the last century.

Martin Feldstein, a professor of economics at Harvard and the president of the National Bureau of Economic Research, said in a statement issued by Harvard, "Richard Musgrave transformed economics in the 1950s and 1960s from a descriptive and institutional subject to one that used the tools of microeconomics and Keynesian macroeconomics to understand the effect of taxes."

Later in his career, Mr. Musgrave worked as an economic adviser to the governments of several developing countries, including Bolivia, Burma, Chile, Colombia, Puerto Rico, South Korea and Taiwan. He believed that such countries could become more prosperous if they overhauled their inefficient tax systems and that they did not have to skew tax breaks to the rich to promote growth.

Born in Germany, Mr. Musgrave owed some of his insights to the work of 19th- and early-20th-century German economists, whose work he studied at the University of Heidelberg. Those economists placed a greater emphasis on the role of government in promoting the collective good than their British-American counterparts. Mr. Musgrave later translated some of their work into English.

Mr. Musgrave was born on Dec. 14, 1910, in Königstein, a small town near Frankfurt. He graduated from the University of Heidelberg in 1933. After leaving Germany, he spent a short time at the University of Rochester before transferring to Harvard. There, he received his Ph.D. in 1937 and began teaching economics.

At that time, he was already starting to develop his theory of public finance, his wife said.

During World War II, Mr. Musgrave joined the Federal Reserve Board, where he became the personal assistant to the chairman, Marriner S. Eccles, an outspoken fiscal expansionist who struggled to contain wartime inflation.

After the war, Mr. Musgrave briefly taught at Swarthmore College, then joined the faculty of the University of Michigan in 1948, returning to work on his theory.

Later, he taught economics at Johns Hopkins University, Princeton, and the Faculty of Arts and Sciences and the Law School at Harvard.

In addition to his wife, Mr. Musgrave is survived by three stepchildren, Pamela Clyne of New Jersey, Roger Richman of Malibu, Calif., and Thomas Richman of Boulder, Colo., and several nieces and nephews, including Harry Krause, a law professor at the University of Illinois at Urbana-Champaign.