

D.J. Wolfson,  
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Review for **De Economist**

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D.J. (Dik) Wolfson retired in 1998 as a professor of economics at Erasmus University Rotterdam, but has held many years of his academic life the chair of professor of public finance at the same university. In between he was Rector of the prestigious Institute of Social Studies in The Hague, as well as esteemed member of WRR and the SER. As emeritus, he is a member of the Dutch First Chamber. Wolfson started his career as a professional economist at the World Bank in Washington. On basis of his professional experience as a specialist in development economics, he wrote his Ph.D. on “Public Finance and Development Strategy” (officially published some years later, in 1979). He returned to the Netherlands to work as a top civil servant at the Dutch Ministry of Finance, where he was the main author of the famous “Interim-Nota Inkomensbeleid” (‘Mid Term-Report on Income Policy’) of the centre-left cabinet Den Uyl, published in 1975. This was the first government report ever, in which Jan Tinbergen’s ideas of using market forces to diminish inequalities in wealth and income, have been translated into concrete income policy measures. However, a final government report on ‘Income Policy’ never was published. Wolfson moved then in 1975 to Rotterdam to become full professor of public finance. In this position he was the successor of Willem Drees junior (1963-1971) and Lenze Koopmans (1971-1975).

In addition to his Ph.D.-thesis he has written “Publieke Sector en Economische Orde” (1988, in Dutch), which has been used widely in the Netherlands as handbook in public sector economics, combining in depth-welfare economics with applications to the Dutch case, in particular problems of the Dutch welfare state of the nineteen eighties (the era of the ‘Dutch disease’!). His new book “Theorie en Toepassingen van de Economische Politiek” might be considered a prelude to his magnum opus. The book opens with the claim that economic policy has changed fundamentally with the coming of the European Union. National sovereignty of member states is increasingly transferred to the supranational level and the ongoing integration process urges for continuous reflection on and adaptation of the objectives of economic policy.

With the entry of the Euro and the ECB, there is in Dutch economic policy (as in all smaller national economies in the EU!) no more space for autonomous macro-economic expenditure policy. Consequently, Dutch government focuses more and more on the improvement of the economic structure, in order to make better use of the opportunities offered by an economically and politically integrating Europe. Main question of the book is, how the economic way of thinking can contribute to the political debate on the future of Dutch society.

The theoretical foundations of economic policy are treated in the first part of the book. In part two this theory is applied to three important and controversial policy fields: big infra-structural projects, the interrelated problems of housing, mobility and space, and the relation between labour, education and social security. Dik Wolfson describes how the remaining discretionary power in the Netherlands can be used, and how democratic solutions can play a role in the necessary institutional reforms. In the theoretical part Wolfson shows time and again that he is a student of Pieter Hennipman, the well-known Dutch professor of welfare economics in Amsterdam, who made in his Ph.D. in 1946 the distinction between ‘economic motive’ and ‘economic principle’. There are no economic objectives; there are only economic means, i.e. scarce resources that can be employed in alternative directions to satisfy endless human needs (confer the well-known definition of economic science of Lionel Robbins). In economic policy, objectives have to be distinguished from instruments. Policy objectives are demand driven and are determined by the democratic political process. Policy instruments have to be evaluated against their contribution to the fulfilment of policy objectives, as formulated in the Social Welfare Function. Then the famous concepts of ‘allocative efficiency’ and ‘distributive justice’ are coming in as evaluation criteria, the latter being just as economical as the first. To these, ‘sustainability’ may be added nowadays. The economist in his role of policy advisor can apply these evaluation criteria to analyse the efficiency and effectiveness of economic policy programmes.

This theoretical part is based on both the new institutional economics and welfare economics. The foundation for the analysis is provided by the ‘economic theory of collective goods’, as nicely summarised in the matrix of figure 2.1 on page 53. In this matrix, the well-known (non-)excludability dimension is present, but the (non-)rivalness dimension has changed into adaptability of supply, varying from 0 percent, is completely indivisible, to 100 percent, is completely divisible. However, this refinement did not help me to understand better the various analytical problems of collective goods. In the lower excludability part of the matrix, a further distinction is made between individual goods, quasi-collective goods and club goods. This distinction does not refer to technical characteristics of goods but to their method of provision: private (markets), public (governments) or semi-public (associations). After all these years I still have not found what I am looking for: the final and ultimate analysis of the individual/private good-collective/public good taxonomy. Wolfson’s elaboration is not convincing. It is too complicated and actually tries to combine two approaches, which in my opinion should be kept strictly separated: technical characteristics that are innate, and institutional arrangements of provision that are decided upon politically. Both must be distinguished properly and carefully, in particular where students still mix them up. When students do, they always end up with the methodological fallacy that (pure) collective goods have to be provided by governments, just and only because of their technical characteristics of collective goods, quod non!

Another innovation claimed by Wolfson is that in his new approach to economic policy formation the information problem is the heart of the matter, more in particular asymmetric information between the various players in the economic policy field: citizens as voters, politicians, bureaucrats, interest groups, and most important citizens as policy consumers. This claim is realised in chapter four on Optimal Administration (‘Optimaal bestuur’), which presents

a thorough analysis of how information problems pervade collective decision-making. The author formulates a so-called 'layer-model' of policy making and policy implementation in the public sector. Government as principal decision maker is at the first layer; institutions (public and private) for policy implementation at the second layer; and citizens as principals at the third layer. Such a layer-model results in a system of checks and balances with a clear and transparent division of tasks, incentives and responsibilities. In fact, we recognise here the agency-approach. However, in the other theoretical chapters the information approach is less prominent.

With regard to part 2, the applications to specific policy fields and policy problems, I can be short. These three chapters present a nice empirical introduction with the application of the theoretical framework developed in the first part of the book, but they are less convincing than the theoretical part itself. It seems that the author lost inspiration up at this point. The empirical analysis is not as thorough and the treatment of the cases somewhat superficial. Here it shows that Wolfson is less specialised as a field specialist and a policy analyst/evaluator, than as an economic theorist, methodologist and teacher. I also missed a feedback from these empirical chapters to the theoretical framework in part 1. What are the strong points of this theoretical framework for empirical analysis, and what are the weak points that need improvement? After all, nothing is as practical as a good theory. Now, it is up to the reader to formulate this feedback. Of course, thanks to the excellent first part of the book a critical reader will have no problem to fill in himself such feedback, but I would have preferred to read the author's opinion about this as well.

With this book Dik Wolfson once more has proven to be an eminent economist and professor, who as a true literate explains very clearly to his audience complicated public sector problems. It is a relief to read his beautiful language and to experience that economics it is not all about mathematics and econometric modelling. And his magnum opus? I still wait for that to come, and hopefully in English, so that a worldwide audience can profit from his truly academic contribution to economic science.

*Short version (not published)*

D.J. (Dik) Wolfson, emeritus professor of public finance at Erasmus University Rotterdam, is well-known from his "Publieke Sector en Economische Orde" (1988, in Dutch), which has been used widely in the Netherlands as handbook in public sector economics, combining in depth-welfare economics with applications to the Dutch case, in particular problems of the Dutch welfare state of the nineteen eighties (the era of the 'Dutch disease'!). His new book "Theorie en Toepassingen van de Economische Politiek" (again in Dutch) might be considered a prelude to his magnum opus. The book opens with the claim that economic policy has changed fundamentally with the coming of the European Union. National sovereignty of member states is increasingly transferred to the supranational level and the ongoing integration process urges for continuous reflection on and adaptation of the objectives of economic policy. With the entry of the Euro and the ECB, there is in Dutch economic policy (as in all smaller national economies in the EU!) no more space for autonomous macro-economic expenditure policy. Consequently, Dutch government focuses more and more on the improvement of the economic structure, in order to make better use of the opportunities offered by an economically and politically integrating Europe. Main question of the book is, how the economic way of thinking can contribute to the political debate on the future of Dutch society.

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structural projects, the interrelated problems of housing, mobility and space, and the relation between labour, education and social security. Dik Wolfson describes how the remaining discretionary power in the Netherlands can be used, and how democratic solutions can play a role in the necessary institutional reforms. In the theoretical part Wolfson shows time and again that he is a student of Pieter Hennipman, the well-known Dutch professor of welfare economics in Amsterdam, who made in his Ph.D. in 1946 the distinction between ‘economic motive’ and ‘economic principle’. There are no economic objectives; there are only economic means, i.e. scarce resources that can be employed in alternative directions to satisfy endless human needs (confer the well-known definition of economic science of Lionel Robbins). In economic policy, objectives have to be distinguished from instruments. Policy objectives are demand driven and are determined by the democratic political process. Policy instruments have to be evaluated against their contribution to the fulfilment of policy objectives, as formulated in the Social Welfare Function. Then the famous concepts of ‘allocative efficiency’ and ‘distributive justice’ are coming in as evaluation criteria, the latter being just as economical as the first. To these, ‘sustainability’ may be added nowadays. The economist in his role of policy advisor can apply these evaluation criteria to analyse the efficiency and effectiveness of economic policy programmes.

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