

Introduction

This work proposes some lectures¹ for an intermediate course in *Public Economics*. The lectures aim to treat four topics, in many elements related each other: (i) the economics of institutions and political economy; (ii) the economics of law; (iii) the economics of public services enterprises ownership and (iv) the organization of public administration in providing public services.

We may say that these topics are not fully familiar with the standard normative approach to public economics, as followed in the traditional textbooks. Actually, there is not an organic and comprehensive theory about all of them, taken together. Thus, this work could be considered as an attempt in this direction.

As far as the first topic is concerned, *Economic of institutions and political economy*, we analyse, in the first chapter, how institutions arise in an industrialised country and how they are working and the effects they produce. The approach we follow is that one proposed in a recent literature, due to theoretical contributions by Daron Acemoglu and co-authors [Acemoglu (2009, ch. 22), Acemoglu (2013, ch.1), Acemoglu and Robinson (2015.)]. Main Acemoglu's argument is that, although economic institutions are the essential factor shaping economic outcomes, they are themselves endogenous and determined by political institutions and distribution of resources in society. Besides this approach, we treat also some standard issues on positive public economics and political economy referring, in particular, to the voting procedures and the relationships between political processes and economic efficiency [Hindriks and Myles (2013, ch.11) and Benassy-Quéré et (2014, ch. 2)]. Essentially, we move toward a positive theory of public expenditure with reference to some specific models of political economy.

As far as the second topic is concerned, *Economics of law*, by following a specific Acemoglu's reasoning, we may state as the structure of the civil law and particularly the set of enforcing property rights rules provide the main institutions of a country. Therefore, along this approach, in the second chapter, we analyse the basic propositions about the relationships between civil law and economics. The main issues considered in the lectures are those of legal liability for accidents, as a branch of tort law, of the nature and the justification of property rights, of the contracts law, in particular the formation, interpretation and the remedies for their breach. Further issues are those of litigation and suit and of law enforcement, in particular as far as the cases of corruption, tax evasion, anticompetitive collusion are concerned.

In this Law & Economics framework, the seminal contribution we are mainly following is the classical one by Louis Kaplow and Steven Shavell [Kaplow and Shavell (2002), Shavell (2005)]. The approach employed for analysing legal issues is typical of the economic analysis, as it uses extensively stylized models and postulates that individuals and firms are forward looking and rational, acting with a view toward the possible consequences of their choices. Moreover, as in the standard welfare economics framework, the social desirability of an action, with legal consequences, is described by the condition of equality between its social marginal benefit and its social marginal cost. The third topic treated in the lectures, *Economics of public services enterprises ownership*, refers to the economic basis of the choice between public and private ownership of enterprises providing public services. In this respect, we follow, in the third chapter, some relevant issues about Private-Public partnership mainly due to the contribution by Oliver Hart and colleagues [Hart et al. (1997), Hart (2003)]. In this framework, first, we treat the issue of the social convenience of delegating the running of a public facility, like a hospital or a prison, to a private manager instead to a public official.

¹ This work collects the lectures of the course in *Public economics* held, in the academic years since 2011 to 2015, within the Master in Economic Sciences, at the University of Florence. I should like to thank Lisa Grazzini, for several helpful suggestions and insights in all themes of the lectures, and Lapo Filistrucchi, who divided with me the responsibility of the course in *Public Economics*.

Second, we analyse the choice of combining ("bundling") or separating ("unbundling") the two activities of building an infrastructure and managing the relative service. Third, we discuss the governmental choice of the means for financing a Private-Public Partnership contract, taking into account the distinction among works, if they are "hot" (generating positive cash flows) or "cold" (producing insufficient cash flows). Finally, we deal with the cost-benefit analysis of the sale of a public enterprise in order to ascertain the conditions for a socially desirable pricing of shares.

The fourth topic we would intend to analyse in the lectures, the *Organization of public administration in providing public services*, is a very general and wide one, and then we propose some examples. One of the most meaningful institutions of a country is its Health care system. Hence, in the fourth chapter, we propose a theoretical analysis of the organization of health care, according to the various systems prevailing around the world [Zewifel et al. (2009), Glied and Smith (2011) and Petretto (2013a)]. Accordingly, we analyse the most important health care specificities for the government intervention in this context. Further, we consider the issue of the organization of health service production and provision, particularly the question of separation versus integration of production and of the choice of the systems of payment, i.e. tariffs, to providers.

As a further example of internal organization of public administration, in the sixth chapter, we refer to the setup of intergovernmental relationships in a federal country where central government is used to transfer resources to local jurisdictions in order to alleviate the imbalance between expenditures needs and revenues [Hindriks and Myles (2013, ch. 20) and Petretto (2013b)]. The aim of these transfers is to ensure to every citizen the access to reasonably comparable levels of public services within a chosen locality, at a cost in line with what would be paid elsewhere. Therefore, equalization transfers promote horizontal equity by permitting fiscal treatment of identical persons in a federation and by enabling jurisdictions to provide minimum standards of essential packages of public services. In the chapter, we deal with the efficiency implications of such equalization system. The question we investigate is, given the level of a public service output constrained by a minimum standard fixed by the central government, how much of it a local government provides, at what cost and at what level of quality.

By trying to link together these topics, we may remind once again Acemoglu's statement, previously mentioned, by saying that civil law, public services enterprises, health care organization and intergovernmental transfers are institutions, endogenously determined within the economic systems, and, as a such, able to influence meaningfully their welfare performances.