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Public Good

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Abstract
Public good, in economics, a product or service that is non-excludable and nondepletable. A good is non-excludable if one cannot exclude individuals from enjoying its benefits when the good is provided. A good is nondepletable if one individual's enjoyment of the good does not diminish the amount of the good available to others. For example, clean air is (for all practical purposes) a public good, because its use by one individual does not (for all practical purposes) deplete the stock available to other individuals, and there is no way to exclude an individual from consuming it, if it exists. Another common example is national defense, because it is assumed that a nation-state cannot choose to protect just some of its residents from foreign aggression while excluding others from that protection; so too, providing one resident with national defense does not diminish the protection being provided to other residents. A public bad is similarly defined to be a "bad" that is non-excludable and nondepletable. For example, polluted air is a public bad, for the same reasons that clean air is a public good.Public goods contrast with private goods, which are both excludable and depletable. Food is a straightforward example of a private good: one person's consumption of a piece of food deprives others of consuming it (hence, it is depletable), and it is possible to exclude some individuals from consuming it (by assigning enforceable private property rights to food items, for example).Some goods fit neatly into neither category, because they are excludable but nondepletable (such as a music concert) or are non-excludable but depletable (such as a public beach, which may become less attractive, or "depleted," as more individuals make use of it).Public goods (and bads) are textbook examples of goods that the market typically undersupplies (or oversupplies in the case of public bads).For example, profit-maximizing firms and self-interested individuals can be expected to choose levels of production and consumption such that the aggregate level of pollution resulting from their activities leaves everyone worse off (according to their own preferences) than if each were somehow prevented from producing or consuming as much as is individually optimal. Commonly suggested solutions to such "market failures" include taxes and subsidies or government intervention.An important similarity exists between problems involving the provision of public goods and collective action problems such as voting, public protest, or output restriction in the case of oligopolists where an individual typically cannot be prevented from benefiting from the achievement of the goal of the collective action, if it is achieved. In such cases, the achievement of the goal can be thought of as a non-excludable good. Consequently, it is often thought that individuals may have little incentive to contribute to its achievement by turning out to vote or participating in a protest if they view the act of contribution as in itself costly and unlikely to have a significant impact on whether the collective goal is achieved.
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Background

Public goods have two distinct aspects: no excludability and nonrivalrous consumption."No excludability" means that the cost of keeping nonpayers from enjoying the benefits of the good or service is prohibitive. If an entrepreneur stages a fireworks show, for example, people can watch the show from their windows or backyards. Because the entrepreneur cannot charge a fee for consumption, the fireworks show may go unproduced, even if demand for the show is strong. The fireworks example illustrates the related free-rider problem. Even if the fireworks show is worth ten dollars to each person, arguably few people will pay ten dollars to the entrepreneur. Each person will seek to "free ride" by allowing others to pay for the show, and then watch for free from his or her backyard. If the free-rider problem cannot be solved, valuable goods and services ones people otherwise would be willing to pay for will remain unproduced.

The second aspect of public goods is what economists call "nonrivalrous consumption." Assume the entrepreneur manages to exclude noncontributory from watching the show (perhaps one can see the show only from a private field). A price will be charged for entrance to the field, and people who are unwilling to pay this price will be excluded. If the field is large enough, however, exclusion is inefficient. Even nonpayers could watch the show without increasing the show's cost or diminishing anyone else's enjoyment. In other words, the relevant consumption is nonrivalrous. Nonetheless, no excludability is usually considered the more important of the two aspects of public goods. If the good is excludable, private entrepreneurs will try to serve as many fee-paying customers as possible, charging lower prices to some customers if need be. One of the best examples of a

public good is national defense. To the extent one person in a geographic area is defended from foreign attack or invasion, other people in that same area are likely defended also. This makes it hard to charge people for defense, which means that defense faces the classic free-rider problem. Indeed, almost all economists are convinced that the only way to provide a sufficient level of defense is to have government do it and fund defense with taxes.

INTRODUCTION

Many other problems, though, that are often perceived as public-goods problems are not really, and markets handle them reasonably well. For instance, although many people think a television signal is a public good, cable television services scramble their transmissions so that nonsubscribers cannot receive broadcasts easily. In other words, the producers have figured out how to exclude nonpayers. Both throughout history and today, private roads have been financed by tolls charged to road users. Other goods often seen as public goods, such as private protection and fire services, are frequently sold through the private sector on a fee basis. Excluding nonpayers is possible. In other cases, potentially public goods are funded by advertisements, as happens with television and radio. Partially public goods also can be tied to purchases of private goods, thereby making the entire package more like a private good. Shopping malls, for instance, provide shoppers with a variety of services that are traditionally considered public goods: lighting, protection services, benches, and restrooms are examples. Charging directly for each of these services would be impractical. Therefore, the shopping mall finances the services through receipts from the sale of private goods in the mall. The public and private goods are "tied" together. Private condominiums and retirement communities also are market institutions that tie public goods to private services. They use monthly membership dues to provide a variety of public services.

[1]Some public goods are provided through fame incentives or through personal motives to do a good job. The World Wide Web offers many millions of home pages and informational sites, and most of their constructors have not received any payment. The writers either want recognition or seek to reach other people for their own pleasure or to influence their thinking. The "reciprocity motive" is another possible solution, especially in small groups. I may contribute to a collective endeavor as part of a broader strategy to signal that I am a public-minded, cooperative individual. You may then contribute in return, hoping that we develop an ongoing agreement often implicit to both contribute over time. The agreement can be self-sustaining if I know that my withdrawal will cause the withdrawal of others as well. A large body of anecdotal and experimental evidence suggests that such arrangements, while imperfect, are often effective. Roommates, for instance, often have implicit or explicit agreements about who will take out the trash or do the dishes. These arrangements are enforced not by contract but rather by the hope of continuing cooperation.

[2]Other problems can be solved by defining individual property rights in the appropriate economic resource. Cleaning up a polluted lake, for instance, involves a free-rider problem if no one owns the lake. If there is an owner, however, that person can charge higher prices to fishermen, boaters, recreational users, and others who benefit from the lake. Privately owned bodies of water are common in the British Isles, where, not surprisingly, lake owners maintain quality.

Well-defined property rights can solve apparent public-goods problems in other environmental areas, such as land use and species preservation. The buffalo neared extinction and the cow did not because cows could be privately owned and husbanded for profit. It is harder to imagine easily enforceable private property rights in schools of fish. For this reason we see a mix of government regulation and privately determined quotas in that area. The depletion of fish stocks nonetheless looms as a problem, as does the more general loss of biodiversity. For environmental problems involving the air, it is difficult to imagine how property rights could be defined and enforced effectively. Market mechanisms alone probably cannot prevent depletion of the Earth's ozone layer. [3]In such cases economists recognize the likely necessity of a governmental regulatory solution. Contractual arrangements can sometimes be used to overcome what otherwise would be public goods and externalities problems. If the research and development activities of one firm benefit other firms in the same industry, these firms may pool their resources and agree to a joint project (antitrust regulations permitting). Each firm will pay part of the cost, and the contributing firms will share the benefits.

[4]Contractual arrangements sometimes fail. The costs of bargaining and striking an agreement may be very high. Some parties to the agreement may seek to hold out for a better deal, and the agreement may collapse. In other cases it is simply too costly to contact and deal with all the potential beneficiaries of an agreement. A factory, for instance, might find it impossible to negotiate directly with each affected citizen to decrease pollution. The imperfections of market solutions to public-goods problems must be weighed against the imperfections of government solutions. Governments rely on bureaucracy, respond to poorly informed voters, and have weak incentives to serve consumers. Therefore they produce inefficiently. Furthermore, politicians may

[1] Benson, Bruce. The Enterprise of Law. San Francisco: Pacific Research Institute for Public Policy,
[2] Klein, Daniel."Tie-ins and the Market Provision of Public Goods." Harvard Journal of Law and Public Policy 10 (Spring 1987): 451–474
[3] "Public Good | Learning to Give".www.learningtogive.org
[4] *Challenge* 34, 2 (March April 1991) p.39.

supply public "goods" in a manner to serve their own interests rather than the interests of the public; examples of wasteful government spending and pork barrel projects are legion. Government often creates a problem of "forced riders" by compelling persons to support projects they do not desire. Private means of avoiding or transforming public-goods problems, when available, are usually more efficient than governmental solutions.

Mixed economies need both public and market goods. The amount and kind of public goods have to be determined by political choice. This chapter argues that those choices are not likely to be improved by the use or the common misuses of public goods theory or social choice theory.

PUBLIC GOODS THEORY

[1]National Defence, law and order, lighthouses, streets and street lighting are examples of goods which are called 'public' because they can't be supplied to anybody without being available to everybody, and their individual users can't be made to pay for them. Next there are goods which it is possible but unusual to charge each user for: highways, bridges, weather forecasts, public libraries, national parks. Finally there are goods which can quite well be supplied in a market way but which many governments choose to supply to some or all of their citizens free or below cost: education, health services, public transport. For some analytical purposes economists define as 'public' only those goods, like lighthouses, which cannot be supplied on any user pays basis. But the subjects of this chapter are theories about the political decisions rather than the nature of the goods, so for present purposes we will treat as public goods all those whose supply is determined not by individual market demand but by collective political choice, any goods and services which governments decide to supply free or below cost to their users.

[2]The argument of Paul Samuelson's 1954 'Pure Theory of Public Expenditure can be put into plain language, and into its context in neoclassical economic theory, as follows. An ideally efficient market economy would allow individuals to get the best available return for their contributions to production, and then spend their incomes as they liked best, thus maximizing their satisfaction or 'utility' as far as their individual wealth and earning capacities allowed. The system as a whole would allocate resources to meet the pattern of individual preferences revealed in the people's market demands,so that (given the existing distribution of endowments, and a number of other conditions) the market mechanism or 'hidden hand' would ensure that the population as a whole made the most satisfying possible use of its resources.

[3]But nobody wants private goods only. Everybody including firms producing private goods for market-needs some public goods too. So firms' and individuals' demands for goods need to include the public as well as the private goods which together will do most for their utility. In the light of their individual means and preferences each should want to spend so many dollars on a particular basket of market goods and so many dollars on a particular basket of public goods. But it is in the nature of public goods that individuals can't usually get exactly their money's worth, no less and no more, of exactly the public goods each wants. So as self-interested maximizes people are motivated to take advantage of that awkward inefficiency: they try to pay as little tax as they can, while grabbing as many public goods as they can. That behavior causes three inefficiencies. First, most people won't succeed in getting exactly the public goods which they want, and which they would be willing to pay for if they had to, if the goods could only be obtained as market goods. Second, there are opportunities for plunder as some get more than their tax-paid shares of public goods and others get less. Third - the main burden of Samuelson's argument- when asked how much public goods they individually want to pay for (what tax they're willing to pay) people are motivated to understate their wants, each hoping to get the goods they want at less than cost, i.e. at other taxpayers' expense. But the effective demand for public goods is the total amount of tax the population votes to pay. So with everyone understating their wants, i.e. resisting sufficient taxation to supply their real wants, there must be a chronic undersupply of public goods.

[4]That last conclusion had radical rather than conservative conclusions far from taxing and spending too much, government was misreading real public demand and taxing and spending too little. Samuelson's warning, being in algebra in the Review of Economics and Statistics, did not alarm the masses. But a few years later John Kenneth Galbraith made a bestseller of the same theme in The Affluent Society (1957). Driving their private Cadillacs down pot-holed, uncleaned, unpoliced public streets, Americans were misjudging their proportions of public investment and private spending to produce national conditions of 'private affluence and public squalor'. Galbraith's persuasions and the educational influence of Samuelson's middle-of-the-road textbook were among the intellectual supports of the leftward shift of opinion in the 1960s, and the Kennedy and Johnson round of

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[1]For a survey of the industry see Amartya Sen's entry, 'social choice', in J.Eat well, M Milgate and P. Newman (eds) *The New Palgrave: A dictionary of economics.*

[2] Robert B. Reich,'Why Democracy Makes Economic Sense', *the New Republic* 3,596 (19 December 1983) pp. 25-32.

[3] David Alan Aschauer, 'Is Public Expenditure Productive?', *Journal of Monetary Economics* 23 (1989) 177-200; 'Does Public Capital Crowd Out Private Capital?',*Journal of Monetary Economics* 24 (1989) 171-188; *Public lnvestmellt and Private Sector Growth,* Economic Policy Institute, 1990; 'Infrastructure: America's Third Deficit', *Challenge* 34, 2, March/ April 1991, 39-45.

[4] Acoella, Nicola (2006), 'Distributive issues in the provision and use of global public goods', in: 'Studi economici', 88(1): 23-42

welfare initiatives.

But careless or more conservative readers could draw different conclusions from Samuelson's theory.

First, taxing, public spending and public goods make opportunities for freeloading which can make the allocation of resources both immoral and inefficient. It seems to follow that the higher the proportion of resources that are allocated in a market way, where there's no escape from paying for what you get and getting what you pay for, the more just and efficient the economy is likely to be.

[1]Second, some of the freeloading in practice shifts resources from poorer to richer. That frustrates the humane intentions of welfare measures, and increases inequalities in unproductive ways which do nothing to enhance work incentives as inequalities should.

For the second complaint there was some solid evidence. In Britain, Richard Titmouse was the first of a number of researchers who found that middle-class people were getting more than their share of health and educational services simply by being smarter at getting them. As most of the politicians and public servants who designed the welfare measures belonged to that class, they may even consciously or unconsciously have designed the measures to serve their own class interest. (Public choice theorists would expect them to do that, as we will see.) What would leave thinkers do about such upward transfers? For example when education is free, middle class children continue to get more than their numerical share of it. On average, whether from heredity or family environment, more of them climb higher up the educational ladder than, on average, working class children do. If you were a Left reformer or voter when that was discovered, what should you do? Three responses were possible.

First, you could justify the upward transfers. In a competitive world a national community has an economic as well as a social and cultural interest in educating its people to the limit of their capacity. However small the working class share of the education, that class can still be richer the better educated, and therefore more productive, the population as a whole is. And if working class children can't have equal educational opportunities without some net transfer of income to the middle classes, that price is worth paying because the educational opportunities are so valuable.

[2] Second, you could think how to retain the new equalities without the upward transfers. You could charge for education but give vouchers to the children of means-tested parents; or if that would reduce total education undesirably, and discriminate unfairly between the children of mean and generous parents within the middle class, you could adjust the progressive income tax to charge the richer class more than the cost of its disproportionate share of free education.

Third, you could take the opportunity to move from Left to Right. We doubt if upward welfare transfers alone have driven many people to do that, but if you want to go for other reasons the upward transfers allow you to claim unselfish egalitarian reasons for going. The claim may be spurious or mistaken the total tax and welfare measures of the postwar decades in fact did more to reduce than to increase inequalities. But a selective eye could find exceptions, beginning with America's urban renewal programmes and Britain's free health and educational services. From those it was possible to generalize a belief that it is in the nature of all public goods to allow affluent freeloading and greater inequality than before. However mistaken, that belief made a 'bridge of disillusion' over which numbers of the young radicals of the 1960s passed to become the middle-aged conservatives of the 1980s.

[3] Thus although Samuelson's theory plainly implied that the democracies needed more public goods and services than they were voting themselves, some of his reasoning could be misused for the opposite purpose of arguing that they would do better with Jess. So also could some uses and misuses of the social choice theory which developed from Kenneth Arrow's paper'A Difficulty in the Concept of Social Welfare' (1950)3 and his book Social Choice and Individual Values (1951). It is convenient to introduce social choice theory before discussing the persuasive effects of the two theories together.

SOCIAL CHOICE THEORY

[4]Leading social choice theorists claim to be broadly concerned with the relation between citizens' individual judgments and their collective social decisions, a subject which has occupied political philosophers since Plato, more intensely since the seventeenth century, and most intensely since the development of modern democracy. But in practice most economists' social choice theory has not addressed the questions which troubled Locke and Rousseau and John Stuart Mill. Instead it has been narrowly concerned with some logical qualities of sets of individual preferences, and with the impossibility of deriving collective preferences from them by mathematical procedures.

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[1] Klein, Daniel. "Tie-ins and the Market Provision of Public Goods." Harvard Journal of Law and Public Policy 10 (Spring 1987): 451–474.
[2]Boyle, James (1996). Shamans, Software, and Spleens: Law and the Construction of the Information Society. Cambridge, Mass.: Harvard University Press.pp.268. ISBN 978-0-674-80522-4.
[3] Robert B. Reich,'Why Democracy Makes Economic Sense', *the New Republic* 3,596 (19 December 1983) pp. 25-32.
[4] Minasian, Jora R. "Public Goods in Theory and Practice Revisited." Journal of Law and Economics 10 (October 1967): 205–207.

[1] Some welfare economists had thought it possible to index welfare to devise a formula such that given some statistical information about nations' economic systems it would be possible to calculate and compare how good they were (in some specified sense) for their members. Governments could then compare the effects of alternative policies in order to decide between them. Societies could be compared at different dates to see whether they were progressing. For those purposes some theorists thought (for example) that it might do to have a formula which gave independent weight to income per head, and the equality with which it was distributed. But 'social welfare functions' of that kind would have to incorporate value judgments, for example of the relative importance of total income and its distribution; and there must probably be more value judgments or psychological guesses, or both, in judging that an additional dollar could do more for one person's welfare than for another's. (In economists' jargon, someone would have to make interpersonal comparisons of utility.) So it occurred to those who wanted economic science to be strictly neutral and objective and make no value judgments, that in a democracy it ought to be possible for the citizens themselves, rather than their economists or government, to judge their own 'utilities' and decide what values should be built into any formula for collective social welfare. The citizens could not be expected to be unanimous. They would always have some conflicts of interest and belief. But if all possible alternative uses of society's resources could be listed, and if every citizen would number them in order of his or her preference, it should be possible to calculate mathematically which alternative would most nearly satisfy most preferences and should therefore be the collective choice. That exercise might be substantial; to arrive at the society's most preferred economic system, or distribution of income, or other government policies. It might be constitutional; to arrive at the society's most preferred procedure for arriving at collective choices. It might be moral; to arrive at the society's most preferred moral rules, or mixtures of mutual obligation and permissible self-interest. There might then be an objective democratic basis for ideas of the 'national interest', the 'common good', and societies 'common values', 'collective purposes' and 'general will'.

Formula in some such way that would have philosophical and political interest. Philosophically they could dream of deriving 'ought' from 'is' by discovering what democratic governments ought to do on a basis of objective facts (about the citizens' preferences) without any need for ethical or value judgments by governments or their economists. We will criticize that philosophical ambition later. Here we are concerned with the practical possibility that as neutral 'technicians of democracy' economists might discover a democratic society's most-preferred policies in that interfering way.

By elegant mathematical reasoning in his 1950 paper 'A Difficulty in the Concept of Social Welfare' Kenneth Arrow proved that it could not be done. In the conditions in which it would normally have to be attempted there is no consistent way, without the possibility of internal contradictions, by which a single social choice can be derived from disagreed individual preferences. As long as three or more citizens are able to rank three or more alternatives, they either agree (in which case nothing further is needed) or disagree (in which case no purely logical or mathematical procedures can be relied on to yield a consistent, non-contradictory result).

There the business ought to have ended. A positivist mistake had been corrected. When expert scrutiny found no serious fault with Arrow's reasoning the search for an objective social welfare function or 'consensus machine' should have simply ceased. Instead, an extraordinary thing happened. The search for a consensus machine did effectively cease, but forty years and a thousand books and articles later, scores of economists are still writing variations of Arrow's

Work. Instead of one impossibility theorem there are now hundreds of them: hundreds of ways of proving that a purely logical or mathematical consensus machine is impossible. It is as if the joy of proving that the world was round had generated a continuous industry in replicating, elaborating and multiplying the proofs that it couldn't be flat. We do not really understand why it happened, but the following is *how* it happened. Arrow's theorem said that a social welfare function, a formula or procedure to derive social choices from individual preferences, was impossible in what he called 'natural' conditions. He called the conditions natural because anyone who wanted a democratic social welfare function at all was likely to want it to fulfill these conditions. He originally specified five, and then revised them to four, as follows. Individuals should be allowed to rank any number of alternatives in order of preference. If people prefer (say) alternative *x* to alternative *y,* that preference should not change because of changing preferences for other things. If every individual prefers *x* to *y,* society must do likewise. And there must be no dictator anyone whose preferences can command or override everyone else's preferences. (Short titles for those conditions were: unrestricted domain; independence of irrelevant alternatives; a 'Pareto' rule that any unanimous preferences should prevail; and no dictatorship.) What Arrow proved was that no consistent, no contradictory social welfare function could comply with all four of those reasonable requirements.

[1] Boyle, James (1996). Shamans, Software, and Spleens: Law and the Construction of the Information Society. Cambridge, Mass.: Harvard University Press. pp. 268. ISBN 978-0-674-80522-4.

[1]What social choice theorists have chiefly done since is to explore the logical effects of varying the conditions. Discard any one of Arrow's conditions and there is now an impossibility theorem which does without it. There are impossibility theorems for more than a hundred other sets of conditions. Some of them are replicated for different meanings and interpretations of the same conditions. Theorists have devised mathematical notation for elements of liberty so that they could model procedures for deriving collective rules about liberty from individual votes about it, in order to prove *their* impossibility. There has also been some modeling of alternative voting systems and practices, for example strategies to frustrate other voters' preferences by mis-stating one's own. Meanwhile there have been very few possibility theorems. The few are of two kinds. They have implausible or undesirable conditions, like dictatorship; or they incorporate interpersonal judgments of utility. The latter deserve notice because the whole social choice industry arose in the first place from a desire to avoid making interpersonal judgments of utility. The theories which Arrow showed to be impossible, and most of the impossibility theorems themselves, are concerned with attempts to arrive at social policies without considering their effects. Why not consider their effects? Because if you want to compare the social effect of one policy with the social effect of another, you must first decide what weight to give to their effects on different people. You must decide whether an additional loaf of bread is likely to do more good for a starving child than for a well-fed millionaire. If you think it might, you may need to decide whether it is right to tax the millionaire to feed the starving child. And you may need to decide whether 'right' should have a utilitarian or a moral meaning. You must make both interpersonal judgements of utility, and moral and value judgments. We will argue later that value judgements are inescapable in any serious discussion of social policy, and are concealed in all social choice and public choice theorizing. But some welfare economists don't believe that, and want to offer society a politically and morally neutral expertise. They may agree that social policies have to arise from interpersonal comparisons and value judgments, but they think those judgments should be made by the citizens themselves without interference by social scientists or governments. Hence the search for a formula or procedure which could derive policies directly and sufficiently from the citizens' preferences alone. Arrow proved that to be impossible in logic. But it should already have been obvious to common sense that it was anyway impossible in practice.

How could individual preferences in practice produce workable public policies? If the policies are derived one by one from the citizens' votes on one issue after another the policies won't hang together and government must collapse from incoherence. So as social choice theorists have always insisted- what each citizen must rank in order of preference must be whole, coherent sets of policies which promise 'whole' social futures. But that is absurd: the technical planning, budgeting and coordination which now strain the resources of elaborate public services would have to be designed instead by each voter as she registered her preferences. The detailing of policies and the day-by-day judgments which adapt them to changing conditions involve politicians and public servants in incessant moral choices and comparative judgements of people's welfare; those also must somehow be supplied by daily mathematical processing of the citizens' individual preferences. If on the other hand welfare theorists merely want the citizens to express preferences for broad principles and directions of development, to be implemented in detail by politicians and public servants, that describes

what happens now and offers no advance on it. Arrow proved to be logically impossible a dream that was already impossible in practice.

We think, perhaps more contentiously, that the dream was also morally undesirable.Its pretence of moral neutrality is false; it merely replaces better moral principles by worse. Instead of saying 'cruelty is wrong and a good culture does not teach people to enjoy it' the expert says 'as far as our profession is concerned the only wrong is frustrating the people's choices'. Thus the political scientist abandons the political philosopher's traditional tasks of considering which social principles are best, and studying how people's principles and preferences are formed. If what most people like best is to watch lions eat a few Christians every Saturday, political scientists need only check that the votes are correctly counted or better still recommend privatization and admission charges so that the entertainment will meet a precise market demand with nom freeloading. We need not labour the point: no democrat should be indifferent to the wants which a democracy generates or allows being satisfied. And just as it is right to defend minorities, it may also be right to defend majorities from themselves. If tobacco advertisers with millions to spend on mass persuasion can persuade a majority to smoke, and can further persuade them to forbid any public spending on smoking research or anti-smoking education, we believe that doctors and researchers and reformers should still divert any public resources they can lay their hands on to persuading the majority to have more sense: they should not be deterred by respect for majority rule, or by accusations that they are elitist or paternalist because they profess to know the people's interests better than the people themselves do. There will always be conflicts between principles of democratic government and

[1] . Kingma, Bruce R. (2003), Anheier, Helmut K.; Ben-Ner, Avner (eds.), "Public Good Theories of the Nonprofit Sector", The Study of the Nonprofit Enterprise:Theories and Approaches, Nonprofit and Civil Society Studies, Boston, MA: Springer US, pp. 53–65, doi:10.1007/978-1-4615-0131-2_3, ISBN 978-1-4615-0131-2, retrieved 18 June 2021.

principles of good behavior, and between moral ways and utilitarian ways of deciding what behavior is good. Those are problems for later chapters. Meanwhile they cannot be resolved by pretenses of moral abstinence or political neutrality.

Those are the logical, practical and moral reasons why we think the economists' social choice industry has become a sterile mathematical recreation which should have ceased thirty years ago. Arrow's original proof was useful to correct a mistake by some welfare economists and to head off any further waste of effort in that direction. But since then the industry has become a self-generating and self-serving one, with no helpful and some harmful reference to real social life. Some people think its conclusions strengthen the case against public goods; and its habits of mind can positively blind its practitioners to the real life under their noses. A good example is the question of majority rule. Arrow's own response to his logical discovery, as a scholar with common sense and a social conscience, has generally been to see majority rule as the best approach, however rough and ready, to good democratic government. Mathematical procedures should help to design voting systems to elect politicians, rather than to choose policies. Anthony Downs, another early 'economic theorist of politics', put the two together to suggest that people choose the politicians they believe will think, act and respond to changing circumstances as their electors would wish them to do. Downs had been anticipated by Sir

Robert Peel, British Prime Minister in the 1840s. The Reform Act of 1832 brought the beginnings of a mass electorate. Party organizations were formed to woo it. Leaders began to promise voters specific policies in their election manifestos. But how binding were those promises? Should every policy and act of government be put to a vote and have the prior approval of the public or the party before it could be implemented? Peel argued that that would be impossible. Nobody public, party or politician could foresee the problems a government would face, sometimes at short notice, through its seven-year term. Party and public should elect leaders whose judgment they trusted, perhaps better than they trusted their own: leaders who shared their values and general social purposes and could be expected to act accordingly, as far as practicable, in all circumstances foreseen and unforeseen. A century later Arrow and Downs agreed. But in other minds, perhaps keener on doing maths than understanding government, rigorous unrealism persists. A number of social choice theorists have offered this knock-down objection to majority rule: if a society of three members distributes its income by majority rule, it will be rational for any two members to divide the income between them and leave none for the third member.

What is wrong with that reasoning? It relies on one motive only, and one numerical characteristic, of majority rule. It mistakes their effects. And it neglects many other relevant characteristics of majority rule. We will list eight of those other characteristics, not so much to prove the theorists wrong about majority rule as to illustrate what is wrong with theorizing about any social behaviour in this abstract, axiomatic, monomotivational way. One: If, as is normal, the three who must divide the society's income also produce it, it is likely that their division of labour and economies of scale enable them to produce more than three times as much as any of them could produce alone. If two take all the income the third must die or emigrate, available to any of cutting output by more than a third and leaving the majority poorer, not richer, than before. As Amartya Seen has observed, the rational egoists of economic theory would often be self-defeating 'rational fools'. Logically (but just as unrealistically) the three egoists of this theory should divide the income equally, because any minority has a decisive bargaining advantage against any majority: she can reduce their income by withdrawing her labour. That holds for each of them, so if they are rational the highest income them is an equal third.

But perhaps the third member of the theorists' society is too young or too old to be a producer? Either handicap is one which members of the majority must also suffer in the course of their lives. To secure their own whole-life incomes they need to establish a reliable rule or agreement for the support of dependents, and pay the present dependent accordingly. But if they are ruthless enough, can they make provision for old age because that is still ahead of them, but not for childhood because that is now behind them? No- if there's no support for children there will be any new workers to replace old ones and produce output to support them in old age.

Two: In real life the two egoists, not being social choice theorists, will foresee the above effects and give the third member at least enough to keep her alive and at work. How much that takes may depend on her sense of justice and her opportunities to emigrate, as well as her material needs; and if the majority remember Chester Barnard's analysis they may allow for the minority's moral codes as well as her material needs when deciding how much to pay her, even if their only purpose is to maximize their own incomes. Three: It follows that the offending theory can only apply at best to the distribution of surplus value, i.e. output above whatever must go to the producers to keep them producing. Here it is history that contradicts the theory. In all democracies majorities have power to strip rich minorities of their capital wealth, and no democracy has done it. Democracies have often been justly accused of neglecting or exploiting *poor* minorities, but those have so little to lose that rich minorities would always offer more plunder to majorities of rational egoists. But all democracies allow rich minorities to keep their wealth and much more than their pro-rata share of income, even when ruled by majorities of middling and poor. That may be because other kinds of power prevail over majority rule, or because majorities think they get more by cooperating with the rich minorities than by plundering them; but whatever the reasons, the practice of democratic majorities everywhere belies the theorists' expectations.

Four: Real societies have more than three members and so do their majorities. Majorities are rarely homogeneous, or unanimous on all issues. Most members of majorities on some issues find themselves in minorities on others, so prudence dictates some mutual forbearance, and perhaps some laws to protect minorities. Democratic winners may often take unfair shares but it is rarely in their interest to take all.

Five: Another characteristic of divided and changing majorities is that they act together for purposes, and within limits, which are bargained and agreed among themselves. On some issues at least, majorities commonly have members, and sometimes substantial internal minorities, who have bonds of sympathy, obligation or material interest with the 'external' minorities against whom the majority's will prevails. The need to hold wavering members then constrains the majority's policies and limits the damage its members allow it to do to those outside its ranks; far from using its numbers to plunder its opponents to the limit, forbearing behaviour is a condition of the majority's own existence and power. (Moderate conservatives won't let their harsher colleagues abolish free health services; moderate socialists won't let their harsher colleagues confiscate capitalist property.)

Six: Whatever their internal restraints, democratic majorities are never free to do what they like. They live under laws, and formal and informal rules of behaviour, many of which they support for prudent reasons, which put a great many constraints on winners taking all even if winners want to.

Seven: Some of the rules are moral rules, part of the shared culture. Even in the greediest societies it usually happens that a majority on any particular issue is composed of some members who have material interests in that issue and others who don't. The latter, being disinterested in the matter at issue, may have both greedy and altruistic reasons for restraining the greed of their self-interested colleagues. Greedy reasons: the power to plunder may need to be used sparingly if each use of it makes more enemies and disgusts more swinging voters; so members may not want to waste the power on issues from which they won't personally profit. At the same time it costs the disinterested members nothing to show some altruism by doing what they can, for good moral reasons, to restrain their plundering colleagues. The moral and immoral motives may reinforce each other as those who want to plunder other victims next week, but also want to think of themselves as decent people with reasonably generous standards of behaviour, use moral arguments to restrain their colleagues from plundering these victims this week.

Eight: Besides their conflicting interests and beliefs democratic people also have common interests and shared beliefs, including moral beliefs, which help to restrain them, much of the time, from treating one another too badly.

Those factors don't suffice to protect minorities from misrule by majorities in the Balkans or in Ulster, or until lately in the ex-slave states of the US. But those exceptions cannot be explained by any economic theory of politics. On the contrary the religious, racial and communal hatreds

Which drive those oppressive majorities serve to confirm, by contrast, what mere greed does not impel normal majorities to do.

Meanwhile the eight listed above are among the reasons for doubting that anything new or useful will be discovered about real political life or majority rule by the use of a formal model of two egoists electing to starve a third to death. More generally we doubt that any axiomatic reasoning or mathematical procedures of this kind will discover much about people's motivation or behaviour in their political activity, or about the policies which they or their governments would do best to choose. That should have been obvious a generation ago. We think that most social choice theorists in most of their work are wasting talents for which the world has better uses.

THE THEORIES TOGETHER

[1]Samuelson's theory of public expenditure is not much known except to economists. Even among economists we suspect that social choice theories are read chiefly by social choice theorists. Neither theory is cited much in discussions of economic policy outside the profession. But there have been attempts to popularize them in books in plain language, and we cannot know what indirect influence they may have through whatever they contribute to economists' general attitudes to public and private goods. Whatever their force, the persuasions are usually to the effect that choices and allocations of public goods lack any rational democratic basis and are consequently open to pork-barreling and freeloading, and likely to be less efficient for their ostensible purposes and for the economy as a whole than market choices and allocations would be. Not much is heard these days of Samuelson's and Downs' warnings about the undersupply of public goods. Both beliefs should be tested for fit with the facts of political and economic life. But there are first some theoretical objections to them.

Samuelson's theory expects politicians to buy votes by restraining taxes. There was some ground for that when the theory was written in the immediate postwar years, when people wanted high wartime rates of income tax to come down as fast and far as possible. There has again been ground for it in the tax. Cutting climate of the 1980s. But votes can be bought equally by negative or positive means- by offering to cut taxes or increase benefits to the voters. Through the 1960s politicians were commonly suspected of increasing taxation, often by

[1] Samuelson, Paul A. “The Pure Theory of Public Expenditure.” Review of Economics and Statistics 36 (1954): 387–390.

the painless method of 'bracket creep' as growth and inflation together shifted taxpayers from one marginal rate up to the next, and of using the gains to finance real wage rises for public

employees and a steady expansion of welfare benefits. Both could be seen as principled social improvements or as sectional vote-buying; it was often because they *were* both that they could attract wide enough support to get enacted. And just as the tax cutting mood of the postwar years was reflected in Samuelson's theory that public goods tend to be undersupplied, so the

Spending mood of the 1960s was reflected (as we will see) in public choice theories which predicted that public goods would tend to be oversupplied: politicians and public servants would raise as much revenue as possible and use it to buy votes for the politicians and to increase bureaucrats' pay by enlarging their departments.

We need not labour this simple theme. In real life politicians can compete for support by taking less, by giving more, or by clever mixtures or pretences of both; and those purposes coexist a good deal of the time with more principled purposes in the minds of politicians, public servants and electors. Put simply: votes can be attracted by giving, by not taking, and by governing well. It is stupid, and quite unpromising for purposes of understanding and prediction, to build deductive theory on any one only of the three propensities. Intelligent analysis must always be alert for all three. The selective blindness of public goods theory, public choice theory and theories of perfectly benevolent government are equally silly.

[1]Samuelson's theory suggested that democracies need more public goods than they generally vote themselves. Arrow and sen have never suggested that they need less, and when writing on other subjects than social choice theory they have both argued for many progressive policies and active roles for government. Both also argue that as policies cannot be sufficiently derived from individual preferences their foundations should include moral considerations. But in coming to these progressive conclusions the three eiders have few followers among public goods and social choice theorists, most of whom - if they link their work to policy at all - come to more conservative or 'radical Right' conclusions. A common theme is that the provision of public goods allows so much freeloading and self-interested contrivance by powerful groups and individuals that societies do well to make do with as few taxes and public goods as possible. An influential leader of that school of thought is Mancur Olson, and to sample it we can sketch the argument of his books **The Logic of Collective Action: Public goods and the theory of groups (1965) and The Rise and Decline of Nations (1982).**

[2]The curious argument of *The Logic of Collective Action* is this: because freeloaders can gain more from collective action than the collective actors can, collective action is never rational. Suppose that I ply a trade whose members could gain by acting together to lobby government, raise prices, or raise or lower wages. Acting together costs the actors time and money, so to maximize my gains I leave the action to others. But so do them, because they're rational too, so the action never happens. Olson's rational maximizes are extreme examples of Amartya Sen.'s rational fools.

Why do people nevertheless act together for common or generous purposes in real life? If they do it willingly Olson says they are irrational, by which he means driven by ideology or 'psychological disturbance or disequilibrium. (Voluntary military service, ambulance driving, surf lifesaving, mountain rescue, school crossing service, meals on wheels, prevention of cruelty to children and animals?) But most cooperators are not volunteers, they are coerced or rewarded to take part, by means designed to make sure that those who benefit *do* contribute to the costs. Thus in a society of egoists, groups who could gain by collective action have two options. They can do nothing and gain nothing, as rational fools. Or they can act together by means which prevent freeloading. Those means range from compulsory taxation and military service through industrial and commercial regulation, oligopoly, closed shop unions and other kinds of coerced or contractual cooperation, to the licensing of skilled trades and professions. Those are normal and often effective conditions of acting together, just as laws against murder and theft are necessary conditions of living together. So far, the theory has said nothing new. But the heart of Olson's argument is his belief that most ways to prevent freeloading also reduce the efficiency of the economy as a whole. That is why the freeloading problem is a serious one.

Thus on its own assumptions the theory can be discarded if taxation, regulation and other cost-sharing methods can be reconciled with general economic efficiency. But there are also better reasons for discarding it. The only gains which Olson allows his rational egoists to seek are things they can acquire, i.e. items of property external to the people who acquire them. He assumes that the activity of acquiring them is always unwelcome: a cost to be avoided if possible. In this miserable conception of what it is to be human, people never enjoy interesting or challenging or sociable activity for its own sake. They may be coerced by rules of good behaviour but never welcome them or enjoy behaving well. If they act together it is never because acting together is more enjoyable than idling alone. If they act in sympathy with others, for the good of others, to enjoy teamwork in common causes, to improve their society's justice or quality of life, or merely to keep boredom at bay, it can only be because they are psychologically disturbed. Olson may allow convivial, expressive, affectionate, non-

[1] Paul A. Samuelson, 'The Pure Theory of Public Expenditure', *Review of Economics and Statistics* 36 (1954) pp. 387-9.
[2] Public goods and the theory of groups (1965) and The Rise and Decline of Nations (1982).

acquisitive behaviour in the separate realm of leisure and consumption, but never at work or in government. His is an extreme example of the definition of rationality which has long prevailed in the positivist or Chicagoan branches of American social science: rational means seeking money for oneself; a rational means seeking anything else for oneself; irrational means seeking anything good for other people. Thus a word which used to describe a relation between means and ends has come to describe ends instead: rational no longer means 'logically related' or 'effective for its purpose', it means 'having no other purpose than individual greed'.

To summarize: Olson argues that freeloading possibilities make straightforward collective action irrational for the individuals concerned. So people who can gain by acting together develop various kinds of group action, often coercive, to ensure their own freeloading gains or to prevent others'. Such group action (by monopolies, trade unions, licensed trades and professions, industrial and commercial lobby groups and so on) tends to distort the allocation of economic resources, entrench restrictive practices, hinder innovation and growth, and thus reduce national economic efficiency. But there can rarely be collective action without such damaging behaviour. Conclusion: the most efficient economy will be the one with least collective action and therefore least public goods. Government should encourage market efficiency by enforcing strict anti-trust laws, but should otherwise do as little as possible.

In *The Rise and Decline of Nations* (1982) Olson used the theory to explain the rates of economic growth of the leading capitalist countries after the Second World War, as follows. Wherever public goods are provided, including public regulation of private production and exchange, there is likely to be group behaviour of the kind described above which will distort the allocation of resources, discourage innovation, and divert talent away from producing goods and services to regulating, politicking and other unproductive activity. Olson focuses on two cha!'Acteristics of the group behaviour. Concentrated interests (such as the firms or unions in a

particular industry) can usually exert more influence than can the larger, more dispersed groups (such as the industry's customers, or the society's consumers) who may have more claim to represent the society as a whole. And people are generally slow to perceive the benefits they might get by group action, and slow to organize and act to get the benefits; so restrictive institutions and practices accumulate quite slowly over time. It follows that countries with long histories of stable government have the largest number of entrenched group interests and therefore the most cluttered, distorted and slow-growing economic systems.

That is the theory which Olson uses to select the causal factors that he will include in his historical explanations. Factors modeled in the theory are included; others (however potent they may have been) are not. The effects to be explained are the slow economic growth of the English's peaking countries since the Second World War and the faster growth of Germany, Japan, Taiwan and South Korea. In the US and UK the accumulation of entrenched interests and restrictive practices continued in the normal way and allowed comparatively slow growth. Germany and Japan differed in two respects. Their own dictators had smashed the unions and other self-defences of labour. And entrenched capitalist groups lost their influence when after World War Two the victors purged some of the owners and managers who had been close to the old governments, and created new 'clean skin' democratic governments with no inherited obligations to either side of industry. It was because market forces were thus freed to work unhindered (Olson concludes) that they worked the German and Japanese economic miracles.

That is an incompetent historical explanation. Even if the market freedoms were as Olson represented them their effect could not be estimated without also estimating the effects of half a dozen other factors which were also at work. Germany and Japan had much physical damage to repair and replace. For a decade or more they were scientific and technical borrowers, rebuilding an established technology or (especially in Japan) continuing to catch up with the world's technical leaders.Those conditions commonly allow faster growth than mature economies can achieve. Both countries got substantial international aid, mostly at American expense. Both had unusually intense motivation. The victor countries had triumphs to remember and many of their people could feel that they had earned some right to relax after six years of superhuman effort. By contrast the defeated had more than damaged cities and industrial capacity to rebuild; they had disasters to forget and damaged cultures and self-respect to rebuild. There was powerful appeal in the idea of hard work to restore lost standards of living, and to win through from military failure to economic leadership. Without armed forces or defense industries they could devote all their resources to useful production while the victors bled each other's economies with an escalating arms race and some millions of their healthiest young workers wasted in 'military unemployment'.

All those conditions contributed to the German and Japanese performance. To attribute it to a single factor is a mistake, and Olson's single factor of 'less group action' is anyway exaggerated. The ownership of German and Japanese industry was almost as concentrated after the war as before. It was not significantly less monopolistic than British or American industry.

In Japan it was subject to stronger public planning and direction than British and American industry was, and there were independent sources in Japan's modern history for her remarkable output of entrepreneurs.Both occupation governments then their own democratic governments encouraged the development of labour unions, and their level of industrial cooperation may have owed as much to the psychology of national recovery as to

union weakness. Finally it is difficult to believe that least collective action, least public goods and 'youngest' government regularly cause greatest productivity if the national comparisons are extended to the leading Western countries. Among OECD countries the US has the smallest public sector and the least union membership and power. Sweden has the biggest public sector, the most union membership and power, and a longer history of settled and stable government than the US. Yet by most standards through many of the relevant years those opposites were the world's richest countries, richer than any of those which operated between their extremes. They are rich for partly similar, partly different, partly unique reasons, complex reasons very few of which are noticed in Olson's analysis or could be predicted by the type of theory he uses.

The conservative impulses which Olson sees obstructing change in the mature economies do nevertheless exist. Robert Reich, reviewing Olson's work,distinguished three kinds of response to economic innovation. The first is as Olson describes: potential losers from change combine to block it, so economic growth is slow. The second response is also as Olson describes. In Taiwan, South Korea, Singapore and Japan the losers have often been defence less and have suffered a good deal from changes they were powerless to prevent. Taiwan and South Korea killed or jailed any who offered serious resistance; Singapore and Japan had gentler but still effective ways of preventing resistance, especially resistance by the lower ranks of low-paid and insecure labour. 'Rapid industrial change', Reich observed, 'is relatively easy to achieve when the leaders who plan it have no serious worries about politics, when economic planning is made by stable elites who simply need not take account of how the burdens of economic change are borne by the less advantaged.

The third approach to change is to enlist those it will affect in planning it, to see that its costs and benefits are distributed in ways which most people see as fair. From shop-floor participation in decisions about plant and working conditions, through union representation on corporate boards, to cooperative retraining schemes and tripartite negotiation of national price and income policies and development objectives, elements of economic democracy are helping much of north-western Europe to rival the performance of the more confrontationist English-speaking countries.

However harsh Japan is to its lower ranks of insecure workers, its performance gains much from the depth of consultation with its upper ranks of secure workers. Australia's economic growth surged through the first five years of its successful, union-based incomes policy. British trade unions missed a chance of that sort of cooperation when they spurned the Wilson government's invitations to join in an incomes policy.

Dictatorial brutalities are rarely possible and never desirable in mature democratic economies. That leaves two options for the interest groups whose influence Olson fears. They can confront one another and try to manipulate government to block or distort what change they can, as some of them do in the US and UK. Or they can bargain and cooperate with government and one another to plan changes as equitably as possible, as increasingly in Western Europe. If the US and UK are losing ground it may be from too little public planning and economic democracy rather than too much. But those possibilities will not be noticed by historians who allow Olson's theory to guide their search and selection of the causes and effects of economic development.

THE USES OF PUBLIC GOODS

Here follows a reminder of what these theories leave out: a brief list of reasons why modern mixed economies need public goods and need not be deterred from providing them by the difficulty of deciding about them.

[1] First, many of the decisions are easy. In societies which can afford them it is not hard to decide to have piped water, sewerage, money, weights and measures, road and rail and power and telephone networks, weather forecasting, lighthouses and radio beams, police, law and order, schooling for all children, public health services, and public regulation of waste disposal, noxious trades, work safety, and the labeling of dangerous drugs and anything else which endangers life if falsely labeled. It is true that there are wide variations in the efficiency, honesty and equity with which those goods are provided in different societies. But where there is good government the provisions can often be as efficient, and more equitable, than are provisions of market goods to people with unequal incomes. Where the provisions are bad the need is usually to improve them, not reduce them- a poor water supply doesn't reduce thirst, crooked police don't make policing less necessary, bad roads are better than none, and so on. The reasons for improving rather than reducing inefficient provisions of necessary public goods are much the same as the reasons for improving rather than reducing inefficient provisions of necessary market goods.

Many public goods go to produce other goods. Industry can't function without quite complex public services and infrastructure. Private agriculture, medicine, engineering and electronics are only a few of the many industries which have learned a great deal from public scientific research.

Most of the skill in a modern economy is built on a base of public education.

Wherever public goods are not separate retail items (like free concerts or national parks) but are inputs to the production of market goods or public necessities, cutting public investment is not likely to increase private

[1] Joseph E. Stiglitz, "Knowledge as a Global Public Good" in Global Public Goods, ISBN 978-0-19-513052-2

output or improve national efficiency. Switching off the public navigational beams won't cause private air or sea transport to grow. Letting the roads rot won't expand private road transport. Closing the public schools won't increase private skills or productivity. And so on the need is to get the mix of productive factors right, as in any productive process which has to combine numerous inputs in correct proportions.

In that mix the relations between public investment and private performance can be quite complex. Public investors commonly buy private products and stimulate investment in their production. Only in fully employed conditions need that merely crowd out equivalent private activity. Public investment creates skills and services which determine many private costs and efficiencies, and many of those effects are cumulative as high or low levels of annual public investment build up sufficient or insufficient, up-to-date or out-of-date public capital and services for private use. Where public investment increases national income, some additional private saving and investment are likely. These relations were explored by Kenneth Arrow and Mordecai Kurz in *Public Investment, the Rate of Return, and Optimal Fiscal Policy* (1970) cited earlier, and more recently by David Alan Aschauer and others. Aschauer's empirical observations and theoretical modeling of relations between public non-military investment,private profitability, private investment and the growth of private productivity suggest that a shortfall in public investment has accounted for much of the decline in US economic growth since 1970. 'If the United States had continued to invest in public capital after 1970 at the rate maintained for the previous two decades, we could have benefited in the following ways:

•Our chronically low rate of productivity growth could have been up to 50 per cent higher 2.1 per cent per year, rather than the actual rate of 1.4 per cent;

•Our depressed rate of profit on nonfinancial corporate capital could have averaged 9.6 per cent instead of 7.9 per cent;

• Private investment in plants and equipment could have increased from the sluggish historical rate of 3.1 per cent, to 3.7 per cent of the private capital stock.

[1]The better Japanese and German performance through the same years was supported by between twice and three times the US rate of non-military public investment.

Where the public and private products are not joint but are independent, there can still be synergy between them. Public museums and national parks stimulate privately profitable tourism. Public art schools and galleries encourage both producers and buyers of private art. And there are other relations where the public services contribute not to the production but to the acceptability of private products. Public inspection and licensing tell people which drugs are safe, which nighties are nonflammable, which doctors are respectably qualified - and probably increase demand for those goods and services. Finally many public goods are bought from private producers. The net effect of these interrelations is that public and private investment tends to vary together rather than inversely. Over time there is more 'crowding in' than 'crowding out'. Except for a few lines of public investment that can be turned on or off counter cyclically, boom and slump signify too much activity in both sectors or too little in both.

[2]Next, it is a mistake to suppose that people - even exclusively self-interested people - want only the public goods which they use themselves. Looking only to my own self-interest (any rational egoist may say) I want a great many public goods to be supplied to other people. I want to live in a rich, productive society, so it must provide public infrastructure to all its industries, not just the one I happen to work in, and it must see that all its people, not just me, acquire as much education and skill as possible, with as much public provision as it takes. I want to live in a cultivated and interesting society. So I want good public provisions for those of the creative arts that need public help, not just the one I happen to practice myself, and I want as much intellectual and artistic life and fire and invention as possible to be built into the common culture and the individual people of the society in which I live. Besides good highbrow culture I also like good lowbrow culture,which also uses some public goods: sports arenas, picnic grounds, community centers, and the public broadcasters whose soaps and sitcoms have so far averaged at least as funny and moving as their incessantly interrupted commercial competitors? Outdoors I don't enjoy streets lined with beggars and alcoholics and homeless children or muggers and pickpockets so I want sufficient, intelligent, effective welfare provisions for those who need them. Finally (if my egoism is of the weak-minded comfort-loving kind) I want to enjoy life self-indulgently but with as little guilt, shame or other internal unease as possible, so I would like my country to be generally regarded as one of the more equal of the democracies, in which my pleasures don't have to cause much pain to others. For all these selfish reasons I am probably not the only one (our representative egoist might say) who would rather live with one happy lover in the upper reaches of one of the more progressive Western democracies, paying half my income for public goods, than live tax-free with a submissive harem as a super-rich, super-powerful oil sheik, he being these days the human who possesses the most of what neoclassical economic theory, public goods theory and public choice

[1]James.M.Buchanan (February 1965)."An Economic Theory of Clubs". Economica. 32(125):1–14. Doi: 10.2307/2552442. JSTOR 2552442.
[2] See also Samuelson, Paul A. (1955)."Diagrammatic Exposition of a Theory of Public Expenditure". Review of Economics and Statistics. 37 (4):350–56. Doi:10.2307/1925849. JSTOR 1925849.

theory assume that humans most desire. Rising numbers of the sheiks themselves live abroad in welfare states these days.

[1]There is a further, more important effect of the difference between better and worse cultures. Cultures not only satisfy people's wants, they also do a good deal to form them. Later chapters will argue that the worst shortcoming of liberal philosophy in general and its economic variants in particular is that they assume a world of fully formed adults and won't consider what forms them: what makes the difference between (say) a society with a democratic majority for substantial equality between the sexes, and another whose men enslave its women in a regime of patriarchy, purdah and female circumcision. In Western countries public goods and services make a good deal of the difference between better and worse culture, and consequently between better and worse government. The quality of public education, broadcasting, religion and subsidized arts, and the kinds of morality and social purpose which they help to instill into people, have direct effects on everyone, and powerful indirect effects as they help to determine the quality and social values of the people who are recruited into the influential trades: politics, public service, research, education, journalism, broadcasting and the arts. Meanwhile other public services in housing, welfare and income support affect the kind of upbringing and independence that households with low incomes are equipped to give their children.

[2] As to how cultures form people, especially influential people, there have been odd contrasts in the thinking of Right and Left. Conservatives have traditionally been most concerned about the influences which form people's character and values. In movements like 'the moral majority' they still are. But although they have been more paternalist than others, and happy to see elites govern, they have commonly worried more about the morals of lower than upper classes. Left thinkers on the other hand insist that power is unequally distributed and that democracies are dominated by rich minorities, but -perhaps because they hate to admit that any capitalist regime is better than any other they have been least concerned about the quality of elites and the cultures which form them. That has meant, paradoxically, that the critics who ought to have been most concerned have commonly been least concerned about the different quality of the rulers and the different experience of the ruled in (say) Scandinavia, Argentina and South Africa.

Public education and arts are not all good and profit-seeking education and arts are not all bad. Anyone educated chiefly by TV commercials is likely to value innocent fun, family life and human diversity as well as fast cars and personal freshness. But with increasingly monopolist ownership and political misuse of the most penetrating media, with much of the best literary and artistic talent in advertising, and with market forces exposing children (it is said) to moving pictures of forty thousand violent deaths by the time they are twenty-one, the chances for high social purposes, for independent critical and creative thought, for commercial or ant commercial social research, and for a peaceful, intelligent, compassionate culture to prevail, must depend a good deal on the public contributions to mass and class education. And it costs nothing to keep those services public: we pay the same for them one way or the other, through taxes or the price of soap.

Besides affecting a society's culture public goods also affect, for better or worse, its distribution of real wealth and income. Samuelson regretted that users can't be made to pay for 'pure' public goods. There are also many goods - like education, child care, and hospital services - which users can be made to pay for but which many governments choose to finance from taxes and supply free or below cost to some or all of their users. That separation of the costs from the benefits makes opportunity for the freeloading and allocative inefficiency of which public goods theorists complain. But with many taxes and services freeloading can be prevented, and where it can, the separation of costs from benefits can have positively good uses. To sketch some of them, we can accept the conservative presumption that when government wants to help its poorer citizens it should normally do it by transferring income to them. That leaves them as free as everyone else to judge their own wants and spending priorities. We agree: for those who need it, the age pension is the simplest and best of all welfare measures. Only when income transfers function badly, or other measures can work better, are other measures justified. Here follow half a dozen examples of circumstances in which public goods or services may do more good than equivalent money could.

Public services may serve better than income when people need kinds of protection which they can't buy individually. That applies broadly to most law and order and specifically to the regulation and inspection of the growing number of market goods and services whose quality or safety consumers can't judge for them: the purity of packaged foods and drugs, the safety of electrical appliances and things made of poisonous or inflammable plastics, the solvency of banks, and so on.

Some income transfers are thought to harm the work incentives of those who provide the income, those who receive it, or both. If employers are required to pay their employees child allowances, or fares to work, they may discriminate against workers with children who live beyond reach of the factory smoke. Though they bring other

[1] Klein, Daniel. “Tie-ins and the Market Provision of Public Goods.” Harvard Journal of Law and Public Policy 10 (Spring 1987): 451–474.
[2] Ray Powell (June 2008). "10: Private goods, public goods and externalities". AQA AS Economics (paperback ed.). Philip Allan. p. 352. ISBN 978-0-340-94750-0.

problems, tax-financed child allowances and subsidized child-care and public transport may be preferable. If high progressive taxes finance a generous dole to large numbers of unemployed, that may deter some rich from investing and some poor from seeking work. Retraining schemes and public employment in useful services may be less expensive and more productive than those income transfers.

[1]Goods and services may be better than income if they are harder to divert from their intended users. Public child-care may take better care of some children than their parents would buy for them if they had to pay for it. Most societies have some households whose women, children or aged dependents need protection from breadwinners who spend too much of the bread on drink, drugs, gambling or other recreations, or who simply disappear. Secure tenure of public housing and access to free schools, medical services and women's and children's shelters may do more for them than money which may be seized by the cause of their troubles.

Goods and services may do more than income to help people who would be weak bargainers in hard markets. If government wants to help hard-up people to house themselves, rent allowances may look cheapest in the short run, but aids to home purchase and a stock of well-chosen and managed public housing can house people more securely and cost households and taxpayers less in the long run.

[2]There are services which volunteers will provide to needy people if they have public or charitable rather than profit-seeking organizers. Without their public status and subsidy there would be fewer Meals on Wheels and they would cost the taxpayers more, directly in paying wages for home services or indirectly in hospitalizing people for want of home services.

Two final arguments about public goods may be noticed here though their main exposition belongs in the next chapter. Freeloading counts against public goods only if there is a better alternative - if market supply prevents freeloading. All public goods theorists assume that it does. The belief has two bases, both disputable. First it rests on a moral judgment which defines freeloading as getting what you have not paid for. Why not getting what you have not earned? Anyone with less capitalistic morals can see that unearned incomes from rent, interest, dividends and capital gains are just as freely loaded as any public goods are. On that basis private freeloading is on much grander scale than public freeloading is, and the way to reduce it is to shift more of the means of production, especially the sources of rent, into public, cooperative or non-profit ownership. Second, even on capitalist assumptions private freeloading is large and probably increasing. Business gains from externalities, monopoly and other market imperfections are free gains. So are many executive gains which are greater than any available in honest public service: many times the highest public salaries, with share options, cars, expense accounts, opportunities for tax avoidance and insider trading, and other bonuses. Insofar as there are market prices for executive services, the rates are set by the prevailing business culture, not by bargaining between employers and employed with opposing interests - when directors fix directors' rewards, employer and employed are the same people. There are no effective legal or market limits to how much of their firms' earnings corporate directors can take from their shareholders.

[3]There is finally an argument about the mode of production of public goods. People who believe that public enterprise is less efficient than private enterprise think that public goods get some additional inefficiency, over and above their freeloading inefficiencies, from their mode of production. There are two objections to that belief. The evidence does not always support it - public and private enterprise have had different efficiency at different times, in different industries and in different countries, but research has not revealed any general superiority of one over the other. And public goods are not all produced by public producers. Public and private goods are often produced by similar mixes of public and private enterprise.

Armies, police and public services get most of their buildings and equipment from private producers, while (for example) public producers until recently supplied about half the inputs to the production of Europe's private cars. So even if it were true that private production was more efficient than public it would still take research to discover whether public or private goods in mixed economies incorporate the bigger proportion of private 'value added'.Meanwhile the comparative efficiencies of public and private production are subjects.

CONCLUSION

Government spending and taxes are one way to provide public goods, but they're not the only way. In some cases, markets can produce public goods. Think about radio, for example. It is no excludable since once the radio signal is broadcast, it would be very difficult to stop someone from receiving it. It is also nonrivalrous since one person listening to the signal does not prevent others from listening as well. Because of these features, it is practically impossible to charge listeners directly for listening to conventional radio broadcasts. Radio has found a way to collect revenue by selling advertising, which is an indirect way of charging listeners by taking up some

[1] Bramoullé, Yann; Kranton, Rachel (July 2007). "Public goods in networks". Journal of Economic Theory. 135 (1): 478–494. doi:10.1016/j.jet.2006.06.006.
[2] Maskin, Eric (8 December 2007). "Mechanism Design: How to Implement Social Goals" (PDF). Nobel Prize Lecture.
[3] Wicksell, Knut (1958). "A New Principle of Just Taxation". In Musgrave and Peackock (ed.). Classics in the Theory of Public Finance. London: Macmillan.

of their time. Ultimately, consumers who purchase the goods advertised are also paying for the radio service since the cost of advertising is built into the product cost. In a more recent development, satellite radio companies, such as Serum, charge a regular subscription fee for streaming music without commercials. In this case, however, the product is excludable only those who pay for the subscription will receive the broadcast and thus is not a public good. Some public goods also have a mixture of public provision at no charge along with fees for some purposes. A public city park that is free to use but charges a government fee for parking your car, for reserving certain picnic grounds, and for food sold at a refreshment stand would be an example of this.

The public goods and the merit goods are influenced by government. The public goods are entirely supplied by government, while the merit goods, intervened by government. Owing to the particular attributes, the public goods could not be privatized. The merit goods could not be totally supplied by the private sector. Through the analysis of the demand and supply of these two kinds of goods, the consumer surplus or welfare could be watched. Moreover, it would provide information such as the decision making. As a result, the importance of identifying the concrete kinds of goods should be paid particular attention.

Recommendations

When the supply of public goods is increasing, will the welfare of the consumers certainly increase? If it happened, how much or how many will it bring? For the merit goods, how to choose the corresponding measures to copy with the problems for the government? Maybe these questions need to be further explored.

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