

# 1. Introduction

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The Settle-to-Carlisle line is the most celebrated obscure line in the world. British Rail has been wanting to close it down for years on the grounds that it doesn't pay its way, which is the most mad and preposterous line of argument imaginable. We've been hearing this warped reasoning for so long about so many things that it has become received wisdom, but when you think about it for even a nanosecond it is perfectly obvious that most worthwhile things don't begin to pay for themselves. If you followed this absurd logic any distance at all, you would have to get rid of traffic lights, lay-bys, schools, drains, national parks, museums, universities, old people and much else besides. So why on earth should something as useful as a railway line . . . have to demonstrate even the tiniest measure of economic viability to ensure its continued existence? This is a line of thinking that must be abandoned at once. (Bryson, 1995, p. 294)

This book on the *res publica* was inspired by a manuscript by Egon Matzner, former Director of the WZB (Wissenschaftszentrum Berlin für Sozialforschung) and founder of SASE Austria, who more than ten years ago shortly before his untimely death, in an article titled 'Redefining the public purpose: on the socio-economics of a global *res publica*' (Matzner, 2001) urged that one should rediscuss what has to be public (and what private) under the changed premises of globalization and Europeanization. Since the late 1980s waves of privatization of gas, electricity, coal and steel plants, of telecommunication and transport networks, of banks and post offices, have changed the role of the public sector. Today even core tasks of the *res publica* such as the provision of security are debated as to whether they should be provided or financed privately.

The term '*res publica*' goes back to Cicero's dialogue *De re publica*, in which he states that 'when all are subject to the rule of one tyrant, the state cannot be called a *res publica*'. It has been a recurrent theme ever since Paine (1791) defines it as 'RES-PUBLICA, the public affairs, or the public good; or literally translated, the public thing. It is a word of good original, referring to what ought to be the character and business of government'. In this book, we define the *res publica* as the realm of all matters which are decided upon in societal communications, and on a

societal (often government) level with the aim to provide for a joint (public or societal) interest; contrary to ‘private affairs’ decided upon by private agents (households, firms). This book sets out to analyse shifts between the public and the private in different policy fields and to find out what the *res publica* has to be. What are the core functions in an economy and a society that have to remain public, and do these core functions change over time?

The book addresses two main questions which we want to introduce in this chapter:

1. What is public and why should something be in public responsibility? Which criteria, and theoretical and empirical arguments are relevant to determine whether the provision and financing of a good is a public or private responsibility, or a mixture of both? In sections 1 and 2, we discuss different models which aim to answer the question why something belongs to the *res publica*.
2. Who determines what is public and what is private? Which actors do what? And why are they doing this? How is the public intervention justified? How can one decide whether there is a role for public intervention, and given there is a role for public intervention, who intervenes and how?

This introduction to the *res publica* aims to provide a framework to address not only the normative question on what ought to be the character and business of government (or any other public authority), but also to positively evaluate shifts between private and public roles in recent history. As Van Waarden (2012) argues, historical evaluations of the balance between market, state and society may serve as an alternative for models arguing that the ‘right’ configuration exists: why did current tasks evolve the way they did, and what can be learned from the past? Changes in technology or in the economic environment (such as the emergence of the European Union and globalization) can be held responsible for shifts in the optimal allocation between the public and private sphere, but there might also be a major shift of preferences regarding what should be public or private. Van Waarden (2002, p. 44) refers to a study by Van Thiel (2000), who found that for many local projects the justification for privatization was shaky, and the main drivers were a general presumption against state involvement and herd behaviour among decision makers. This may lead to what Heath (2001, p. 296) calls ‘ideological privatizations’. Although it is hard to claim that the pendulum in the division between public and private, or market and government, has begun to reverse its swing, we feel it is important to give an account of the public sector in order to better understand what is at stake.

## 1.1 WHAT IS PUBLIC?

In economics, a major concern is public versus private goods. Goods can be private, public and 'impure' public goods. The theory of public goods (henceforth: PGs) started with two seminal articles by Samuelson (1954, 1955), in which he gave a formal definition of a pure PG: a good both non-rival in consumption and non-excludable. His division thus runs along the lines of a strict dichotomy between private and public goods, the former being 'ordinary consumption goods which can be parceled out among different individuals', the latter 'collective consumption goods which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good'. The main feature that distinguishes public from private goods is the fact that all receive the same quantity of the public good, whereas individuals may differ in the quantities consumed of private goods.<sup>1</sup> The Samuelson rule, which decides upon the allocation of funds regarding private consumption and public production, states that an optimal allocation is reached once the value of the total quantity of private goods individuals are willing to give up for one additional unit of public good equals the value of the inputs required to produce that additional unit of public good.

Building on this framework, the theory of PGs was extended along several lines, dependent upon which assumptions of the original Samuelson model were released. Not all goods satisfy Samuelson's strict definition: impure public goods lie between strictly non-rival and non-excludable public goods and private rival and excludable counterparts. These impure public goods may suffer from congestion or other externalities of consumption, while public goods in essence cannot. Tiebout (1956) for instance focused on non-excludability limited to localities, which gave rise to a theory of local PGs. In Buchanan's (1965) club good theory, the possibility of exclusion allows the good to be provided in the form of a club good (pay-per-view TV and subscription TV are good examples). Both theories claim that no market failures need to arise: by means of 'voting with their feet' in the case of local PGs, or by means of two-part tariffs with a membership and user fee in the case of club goods (a model applied by some European satellites), the market can provide optimal quantities and qualities of these impure PGs. For the provision of these types of impure public goods, it would imply that there is no or only a limited role to play for government.<sup>2</sup>

For the pure PG characterized by non-excludability, a free-rider problem arises, leading to a market failure, providing a *prima facie* case for government intervention. This in turn has led to the study of voting models in connection with optimal provision of PGs (see e.g. Bucovetsky, 1991).

Note that in Samuelson's original contribution, the government was simply assumed to expand the PG production, financed by means of lump sum taxation, up to the point where the sum of marginal benefits among citizens equals the price or marginal cost of the PG. The research question in the voting models is whether (and under which conditions and voting procedures) preferences are adequately aggregated and revealed in the political process (for example, the median voter theorem would predict that the provision level of the PG is determined by the preferences of the median voter only, which may diverge from the optimal provision level; see Hindriks and Myles, 2006, p. 113). In addition, a case for government intervention in providing PGs may only be given if the benefits (willingness to pay) of citizens is higher than the cost of providing PGs, and if the state itself provides the PGs efficiently; for example, marginal opportunity and transaction costs (including inefficiencies of the tax system) of providing PGs should be smaller than marginal benefits.

Following Samuelson, the two key characteristics of a pure PG give rise to the familiar cross table with private goods (rival and excludable), 'commons' (rival/congestible and non-excludable), collective (club) goods (non-rival and excludable) and PGs (non-rival and non-excludable). This two-way dichotomy may serve well to explain the basic theory of PGs to freshmen in economics, but as an adequate description the same dichotomy is far from complete to describe the rich variety of goods that do not squarely fall into one of these categories. Take the example of military defence, a paradigmatic example of a pure PG in economic textbooks (see e.g. Sandler and Hartley, 1995). The mere existence of military alliances shows that the PG military protection is at best only non-rival and non-excludable among members. Although at a national level military expenditures may be considered as PG outlays, on an international level they better fit the model of club goods, with military alliances in the role of clubs from which exclusion is possible. Taking defence as a non-rival but excludable club good, it follows that all friendly nations will be included in the alliance and that the alliance will have tight linkages to foster cooperation in order to neutralize the free-riding behaviour of small or poor allies (Sandler and Murdoch, 2000, p.301). Another alternative for the pure PG model for defence is the joint product model, where military expenditure generates both private (within-ally) benefits and public (among-ally) benefits. For instance, defence spending on intelligence to reduce terrorist threats may give country-specific benefits as well as higher security among the allies. The joint product model allows the possibility that different categories of defence spending may vary in the degree to which they provide excludable and private benefits or alliance-wide benefits. Another example is given by medication to treat or cure AIDS or other contagious diseases

(see e.g. Sonntag, 2010). As soon as these medications are invented, the knowledge acquired of how to make these substances can be considered as a global PG. However, the patent system temporarily transforms these goods into private goods. The Health Impact Fund initiated by Thomas Pogge and the Global Health Fund can be seen as attempts to recoup the welfare losses incurred by this transition from public to private goods and non-marginal cost pricing.<sup>3</sup>

These examples above show that subtle differences in the characteristics of different PGs may lead to entirely different outcomes with respect to actual and Pareto-optimal provision levels and feasible burden-sharing agreements. Any study of a PG should sort these features out in a systematic way. Bergstrom and Goodman (1973) are among the authors using econometric techniques to empirically estimate a degree of publicness for parks and recreation and police expenditures – both arguably impure public goods.

## 1.2 WHY SHOULD SOMETHING BE OF PUBLIC OR PRIVATE RESPONSIBILITY?

Modern-day economics textbooks argue the market is the default, and where government intends to intervene, the burden of proof is on the side of government. For the government to intervene, it must identify market failures and show that intervention will lead to improved outcomes. ‘But according to which standard?’, Heath (2011, p. 13) rightly asks, arguing that the normative standards used to show that intervention will lead to better outcomes must at the same time be able to explain the track record of the welfare state over the last century. We present three such models or approaches, labelled ‘equality’, ‘community’ and ‘efficiency’ by Heath (*ibid.*, p. 14), which may both justify and explain public intervention.<sup>4</sup>

The redistributive or equality model claims that market economies arrive at generally unacceptable (that is, unequal) distributions of income and wealth and government intervenes to make the outcomes more equal (cf. Musgrave and Musgrave’s 1989 ‘distribution function’). Streeck (2011), in his analysis of the tensions within ‘democratic capitalism’, suggests that the economy is:

ruled by two conflicting principles, or regimes, of resource allocation: one operating according to marginal productivity, or what is revealed as merit by a ‘free play of market forces,’ and the other following social need, or entitlement, as certified by the collective choices of democratic politics. Governments under democratic capitalism are under pressure to honor both principles simultaneously although substantively the two almost never agree . . . Governments that

fail to attend to democratic claims for protection and redistribution risk losing their majority while governments that disregard the claims for compensation from the owners of productive resources . . . cause economic dysfunctions and distortions that will be increasingly unsustainable and will thereby also undermine political support. (p. 3)

These concerns are echoes of De Tocqueville (1835), arguing that the scope of government depends on the extent of voting franchise and the distribution of wealth in society (see also Meltzer and Richard, 1981). The redistributive model suggests that the welfare state serves to limit the scope for exploitation of workers and argues that government should redistribute income and wealth to those both inside and outside the labour market (through, for example, unemployment insurance and welfare benefits). In this approach, the market stands for efficiency while government preserves equity, fairness and/or equality.

The community or morality model argues that the state should engage in activities that purposefully limit the scope of markets. Next to immaterial conditions such as human dignity and rights, freedom of thought and speech, proponents of this stream of thought argue that government must ensure the material conditions to exercise human rationality are met, which are necessary conditions for individual autonomy and democratic citizenship. Citizens (the civil society) have, of course, constantly to fight for and guarantee that the government (state institutions) provide these conditions, and that policy-makers truly fulfil the public interest. Authors such as Walzer (1983), Etzioni (1988) and, more recently, Sandel (1998) argue that 'needed' goods are not commodities, nor should they be treated as such (see also Boulding, 1969). In order to settle the question of whether a good should be provided publicly or privately, one should judge whether the commodification of that good is morally permissible, and if not, the free market exchange of that good should be blocked. Heralded examples of goods that should be provided publicly on moral grounds include water utilities, education, health care, military defence, police and court services; the latter, for instance, to provide equality of the law and equal legal certainty. For certain goods one may argue that everyone should have equal access (for example, primary education, basic health care, national statistics bureaus, cultural institutions, nature reserves). Certain goods, although in principle marketable, have specific properties in terms of safety and security, warranting public provision (for example, nuclear power plants or defence). This model rests on a presupposed 'public sector ethos' (Heath, 2011, p.21), by which the public sector produces goods based on different motivations compared to the private sector, and policy-makers strive for the common good. While private corporations are driven by profit, the state, communitarians argue, is driven by the public interest and 'certain

moral and civic goods are diminished or corrupted if bought and sold for money' (Sandel, 1998, p. 94, cited by Heath, 2011, p. 19).<sup>5</sup> According to this approach, one may even interpret a large part of the welfare state securing adequate food, housing, security and other basic necessities not so much by invoking redistributive concerns, but as the state protecting human dignity. It also explains why so many welfare benefits are provided in-kind, rather than as an equivalent cash payment (allowing for free exchange of these goods on the market). The reasoning is also manifest in case of merit goods, which justify public intervention based on paternalism. A recent example might be a system of mandatory pension savings, paternalistically merited as there may be a tendency for too-little savings due to too-high or hyperbolic discounting.

Finally, the efficiency model argues the state serves as just another way to reach production of certain goods, resolving issues of collective action. In those areas where the state outperforms markets – that is, in the case of natural monopolies, imperfect markets, externalities, production of public goods, incomplete markets and information failures (Stiglitz, 2000) – there is a clear argument from the perspective of efficiency for public intervention (allocation function of the government; cf. Musgrave and Musgrave, 1989). Matzner (2001), for instance, argues that growing population density and urbanization have led to increasing externalities from individual behaviour, calling for restraint of the pursuit of private interests which may negatively influence others.

According to this view, the state basically does the same as the market: providing goods and services; yet only does so where and when it can do so more efficiently. This line of reasoning is also used by Teulings et al. (2005), who argue that besides redistribution the main function of the state is to solve what they call 'complex externalities': externalities which the market is not able to overcome in spite of the Coase theorem. To explain the size of the welfare state, this approach must assume a kind of generality of market failures. These market failures are due to externalities, information asymmetries (giving rise to moral hazard, adverse selection and principal-agent problems), natural monopolies and the impracticability of concluding and enforcing contracts in some domains. Especially fruitful in this respect is to focus on transaction costs in market exchanges and in hierarchical organizations.<sup>6</sup> The comparative advantage of the state compared to corporations, co-operatives, civil organizations and not-for-profits is that the former can simply force citizens to cooperate, thereby reducing transaction costs, where the loss of freedom is to a large extent the freedom to free-ride (Heath, 2001, p. 174). The state therefore also acts as a coordinator of development (economic and social, urban and regional development) when the 'market' lacks the capacity for

long-term (sustainable) and complex coordination of different aims and objectives, actors and driving forces.

The strength of this public efficiency approach is that it is able to provide an account of a widely heterogeneous set of government activities, and also how these may change over time due to technological changes or changes of circumstance (for example, emergence of the single European market). It can readily explain why the state is in the business of natural monopolies and correcting negative externalities (that is, by environmental taxes) and positive externalities (that is, in education, scientific research, nature preservation, vaccination or even weather forecasting). Krugman's definition of the state as an 'insurance company with an army' fits this approach, where all kinds of welfare programmes<sup>7</sup> are merely compulsory insurances solving adverse selection problems, while the army represents the state's role in providing public goods.<sup>8</sup>

### **Three Models of *Res Publica***

Heath (2011) argues that the efficiency model has the highest descriptive power, explaining the rise in government spending across the last century. For instance, the growth of government expenditure by the end of the nineteenth century was mainly due to the enormous public investment in rail and road infrastructures. For our purposes, however, what is important is to establish for any good or activity the right kind of justification for government intervention, whether be it out of a concern for equity, from moral concerns or for efficiency reasons. A too-narrow defence of the political left to defend the welfare state on fairness grounds runs the risk of viewing the welfare state as imposing a high economic cost (by deadweight losses and distortionary taxation), whereas it might in fact be more efficient than any feasible market solution for the goods and services provided (Heath, 2001, p. xvii). On the same footing, the presumption of market above government among the political right has the danger that where the government can deliver huge efficiency gains, in the name of liberty – in particular the unwillingness to pay taxes – these are forgone (ibid., p. 58).<sup>9</sup> The right justification also has implications for the trade-off between equity and efficiency:

The left is willing to tolerate a lot of inefficiency in return for increased equality, and therefore wants an expanded role of the state. The right accuses the left of killing the goose that lays the golden eggs, and so demands deregulation of the economy and a rollback of the welfare state. The problem with both views is that their underlying assumption is totally mistaken. Far from serving as a drag on the economy, the state makes a huge contribution to the efficiency of the economy. It does so not only indirectly, by providing the background conditions

needed for a flourishing market economy, but also directly by providing goods and services that are not available in the private sector. The state lays just as many golden eggs as the market. (Heath, 2001, pp. 200–201)

Thus, the activities of the state and the market are complementary and are undertaken to provide mutual benefits. A misplaced assessment of the welfare state in terms of delivering justice or fairness also runs the danger that if people care less about equity over time, then this may translate into a retrenchment of the welfare state.<sup>10</sup>

### 1.3 RELEVANT DIMENSIONS

In the above section we offered three general models for public intervention and suggested that the tasks of a *res publica* are: (1) redistributing, as market forces result in (democratically) unacceptable levels of income or wealth inequality; (2) producing goods which on moral grounds should not be treated as commodities on the market; and (3) producing those goods for which the public sector generally outperforms markets. In this section we offer three dimensions along which to organize the *res publica*: firstly, the production or the indirect provision of this good; secondly, public or private funding; and thirdly, regulation and standard setting. Along these dimensions we can understand shifts over time. For instance, are certain public tasks which previously were privately funded increasingly publicly funded? Or has the state moved from a role in the provision of specific goods or services to a role of a funder or regulator?

Barr (2012) firstly understands privatization in a simplified public–private dichotomy model as a move from public to private production and/or of financing. He adds, however, that the public sector might impose strict regulations and provisions. Taking the regulatory role into account, goods and services are located between the purely private, in which decisions about quantities to be produced and consumed are decentralized; and the purely public, where decisions on both production and finance are decided upon in the public domain by central planners. Privatization according to Barr is any move from public to private, yet noting that intermediary cases include those where although production and financing is purely private, the government may intervene by means of standards, regulations or competition law, and by securing property rights by means of public courts.

**Dimension 1: Private or Public Production**

The provision of public goods can be direct and indirect. Direct provision is public production and is important if market failures concentrate on the supply side of the market, that is, in the case of natural monopolies and adverse selection. The underlying normative implications of the decision between private or public production is given by De Beer (2004), who argues that a perfect market is only possible under very stringent conditions, such as perfect information and absence of transaction costs. The first theorem of welfare economics states that perfect markets produce efficient outcomes; or stated otherwise, that a competitive equilibrium is Pareto-efficient (Hindriks and Myles, 2006, p.31). Proponents of privatization of publicly produced goods explicitly or implicitly tend to assume that any movement towards this (perhaps non-existent) perfect market will also improve efficiency. According to De Beer, this way of thinking is based on a fallacy. Even if for the sake of argument it is assumed that a purely private provision in a near-perfect market leads to a better performance than public provision, it does not necessarily imply that departing from public provision, all intermediary positions result in a better outcome. Outcomes may possibly be worse once former state-owned companies are partially privatized; often simultaneously lessening grip by government and lacking pressure from competitive forces, increasing prices and lowering quality. In addition, costs of (private) management, marketing and controlling add up to transaction costs which might not accrue in the case of public provision (for example, if consumption is mandatory in the case of publicly provided social insurance).

The trend of privatization in the last three decades with disappointing results at times is relevant here. It has manifested itself in different forms, ranging from transforming public organizations into agencies, deregulation and liberalization, to full privatization (especially the sale of state enterprises in formerly public utilities such as postal services, water and electricity, alongside the sale of publicly owned shares in private companies, such as airports). Against the potential efficiency effects of privatization, one must see the disadvantages. First, transaction costs increase, especially the legal costs to define and defend property rights (Van Waarden, 2001, p. 121). In case of patents and copyrights, the fragmentation of knowledge in private property may also inhibit the expansion of new knowledge (but might, on the other hand, form an incentive for research and development by companies). Second, privatization implies retrenchment of the public domain and expansion of the market, with a corresponding shift from political voice enacted by citizens to exit by consumers. Especially when privatization is not successful, the loss of voice is not compensated by the

gain of exit, in the extreme leading to a situation of both no exit and no voice, as is the case in private monopolies.<sup>11</sup> Advocates of privatization will argue that privatizations sometimes fail because they fall short of full privatization. This may be the case, but it might also be the case that inherent market imperfections (the reason for public involvement in the first place) reappear after privatization. Van Waarden (2001, p. 126) hints at the danger that equal access to the political process is compromised by inequality (succinctly captured in the slogan ‘One dollar, one vote’) and suggests that ongoing privatization may cause a gradual decline in political participation, labelled ‘*Politikverdrossenheit*’: why vote, if most is decided by the market and politics remains in charge of only a shrinking public domain? In the same vein, Judt (2010, p. 73) argues that one social cost of privatization often overlooked is that the more is privatized, the less we share in common:

Any society, he [Edmund Burke] wrote in *Reflections on the Revolution in France*, which destroys the fabric of its state, must soon be ‘disconnected into the dust and powder of individuality’. By eviscerating public services and reducing them to a network of farmed-out private providers, we have begun to dismantle the fabric of the state. As for the dust and powder of individuality: it resembles nothing so much as Hobbes’s war of all against all, in which life for many people has once again become solitary, poor and more than a little nasty. One striking consequence of the disintegration of the public sector has been an increased difficulty in comprehending what we have in common with others. (p. 73)

People who live in private spaces contribute actively to the dilution and corrosion of the public space. In other words, they exacerbate the circumstances which drove them to retreat in the first place. And by so doing, they pay a price. If public goods – public services, public spaces, public facilities – are devalued, diminished in the eyes of citizens and replaced by private services available against cash, then we lose the sense that common interests and common needs ought to trump private preferences and individual advantage. And once we cease to value the public over the private, surely we shall come in time to have difficulty seeing just why we should value law (the public good par excellence) over force. (p. 78)

## **Dimension 2: Private or Public Financing**

Market defects may exist on both demand and supply sides of the market. Heath (2011) argues that public funding of goods (that is, through taxes) is in order when market failures are concentrated on the demand side, for instance due to non-excludability in consumption. Even though financed publicly, provision may still be private, for instance through contracting. Examples in which contracting is paramount are the construction and

waste industries, often publicly funded yet provided by (competing) market parties. Theory regarding public funding often concentrates on methods of financing, exploring the progressivity or (distortionary) effects of taxation, for instance on labour supply or consumption decisions (Stiglitz, 2000).

In addition, increasingly governments have applied the benefit principle: services formerly for free and tax-funded are now subject to levies proportional to their use, together with a shift towards financing by demand, for example by means of vouchers (in the provision of care, education and reintegration services for the unemployed). On the one hand, such fees are levied on the basis that users should be aware that freely provided goods and services are costly, and that they should use these goods and services more deliberately. On the other hand, user fees form a barrier to using such goods which may have positive external effects, and to which all users should have access regardless of their income (for example, medicine).

### **Dimension 3: Regulation and Standard Setting**

Government furthermore can intervene by law and regulation. Certain goods can be forbidden, others can be only produced if they fulfil certain standards. Environmentally friendly modes of production, a recreation zone for employees, health and safety regulations and food security regulations are public goods which are not set through market mechanisms but through law and order. There have likely been shifts towards more of this type of government intervention in various domains.

## **1.4 SOME FURTHER CONCERNS**

The analysis so far presumes that the goods can be readily identified and measured, and if the government intervenes, the public clearly sees the benefits and costs involved. For some goods, however, it is far less clear how they can be produced, what the costs and benefits are, and how the public perceives government intervention. Specific goods and returns to these goods are often incommensurable, producing intangible benefits. When evaluating the benefits from education, for instance, one quickly runs into the problem of a large range of spillovers, the social benefits of which are not easily captured. Kindleberger (1983) extends Adam Smith's list of public goods as a necessary requirement for free trade with so-called 'elusive "goods"' among which are 'macroeconomic stability, redistribution of national income, the monetary system, and . . . standards of various sorts' (p. 1). The latter can all be catalogued under the rubric of so-called 'intangible' goods. The core public functions of Adam Smith (for

example, security) may also be intangible, and it might be hard to imagine a situation where these goods and services are not provided.

While the lighthouse serves as the prototypical public good, goods such as cultural and natural heritage or economic stability are intangible (Frey and Steiner, 2011; Kaul et al., 1999). The market is extremely good at fulfilling our needs for 'medium-sized dry goods' (Heath, 2001, p. 129). The market economy serves well those people whose utility derives from cars, stereos or a house. 'If you happen to be the unlucky type of person whose needs are focused on more intangible goods', Heath (2001, p. 129) argues, 'such as going for a nature hike on a clear summer day – then the market will not serve you well. In fact, it will serve you quite poorly, since it will have a tendency to shift resources away from the production of the type of goods that you enjoy', and which are not traded on markets, for example owing to the lack of defined property rights.

Finally, different combinations of funding, provision or regulation are not necessarily neutral with regard to their political impact. In *The Submerged State*, Mettler (2011) claims that the way in which policy is being made has changed: new policy is by many perceived only as the freely functioning market economy at work. Her conclusion is that the impact of so-called 'visible governance' has diminished, while that of the 'submerged state' has grown (p. 16). Government increasingly operates indirectly and 'statelessly'. Today we may still benefit from many public services without even knowing it, Mettler (2011) claims; the underlying mechanisms including subsidized loans or guarantees by government, social benefits through tax breaks or incentives, and benefits and services provided by private third-party organizations and non-profits, either subsidized or 'contracted out' by government. Invisible government means less trust in the government and in government's effectiveness. Tax morale is lower with less visibility of government spending on social programmes. Judt (2010) argues along the same lines:

What does it mean to those on the receiving end when everything from the local bus service to the regional parole officer are now part of some private company which measures their performance with exclusive reference to short-term profitability? In the first place, there is a negative welfare impact . . . The chief shortcoming of the old public services was the restrictive regulations and facilities – one-size-fits-all – with which they were notoriously associated: Swedish alcohol outlets, British Railways cafes, unionized French welfare offices and so forth. But at least their provision was universal, and for good and ill they were regarded as a public responsibility . . . a social service provided by a private company does not present itself as a collective good to which all citizens have a right. Unsurprisingly, there has been a sharp falling off in the number of people claiming benefits and services to which they are legally entitled. The result is an eviscerated society . . . seeking unemployment pay, medical attention, social

benefits or other officially mandated services – it is no longer to the state, the administration or the government that he or she instinctively turns. The service or benefit in question is now often ‘delivered’ by a private intermediary. As a consequence, the thick mesh of social interactions and public goods has been reduced to a minimum, with nothing except authority and obedience binding the citizen to the state. (p. 73)

## 1.5 CONCLUSION

Section 1.2 has offered us three general approaches to public intervention, suggesting that government intervention is warranted to redistribute income as market forces result in (democratically) unacceptable levels of income or wealth inequality, in order to produce goods which on moral grounds should not be treated as commodities on the market, or to produce those goods for which the public sector generally outperforms markets. Section 1.1 has offered a classification of goods along the lines of public or private goods (or the intermediary impure good). Section 1.3 added public or private funding, public or private production. In addition, the role of regulation and standard setting has been addressed.

Table 1.1 allowed the contributors to this book to compare their specific subfields. Arguments for publicly funding pensions (Chapters 5 and 6) and unemployment insurance (Chapter 7), for instance, can run along the lines of each of the three models from section 1.2, treating public pensions as an (intergenerational) redistributive tool or treating unemployment insurance as a redistributive tool between those in and outside the labour market. From a moral point of view, one could argue that societies should ensure the material conditions for democratic citizenship and autonomy of the elderly after retirement or of the unemployed. Or from the perspective of efficiency, one could argue that public pension systems provide additional or even better hedging against risks compared to their privately funded counterparts, as do unemployment insurances, facing adverse selection problems when provided by the market. Chapters also focus on shifts

*Table 1.1 A scheme to compare contributions*

	Description (positive)			Justification (normative)		
	Who are and were the actors?			Why <i>should</i> the state intervene?		
	State	Civil Society	Market	Equality	Morality	Efficiency
Provision						
Funding						
Regulation						

among actors in the three dimensions given in section 1.3, shown in the descriptive panel of the table. Recent shifts away from public to private bodies are, for instance, found in the fight against money laundering (Chapter 3) or in social housing provision (Chapter 10).

## NOTES

- \* With thanks to Michael Getzner and Frans van Waarden for helpful comments and additions.
1. Free disposal public goods, such as public television, allows that less is consumed than made available (Silvestre, 2012, p. 101).
  2. In the case of television programmes, one might argue that the private provision of free programmes, financed by commercials and product placement, is merely driven by private profits, and thus probably leads to a lower quality of programmes. Quality programmes (for example, information, cultural affairs) may have to be publicly financed or provided.
  3. For the Health Impact Fund, see: [www.yale.edu/macmillan/igh/](http://www.yale.edu/macmillan/igh/). For the Global Health Fund, see: [www.theglobalfund.org/en/](http://www.theglobalfund.org/en/).
  4. We leave out a third potentially significant function of the public sector, which is to stabilize the economy, and may be labelled 'stabilization function' according to Musgrave and Musgrave (1989).
  5. This may even discourage state intervention in some fields of a private or civil society-based production of public goods if actors are intrinsically motivated, and if they consider their engagement to be corrupted by external incentives such as prices or government subsidies (they provide goods and services because these would be neither market- nor government-related).
  6. Heath (2001, p. 167) states: 'there is no *a priori* reason to think that private-sector bureaucracies will be more efficient than public-sector bureaucracies. And in the absence of effective competition, they are likely to be very much less so. Thus the same forces that make it advantageous to form giant corporations also make it advantageous for the state to take on a strategic role in the economy. From an economic point of view, big business and big government are like fraternal twins.'
  7. One can also argue that the risks of increasing labour specialization, requiring investments in highly specialized human capital and on-the-job training, are difficult to insure on private markets. Seen in this light, even the progressive income tax is an insurance device (see Sandmo, 1999, p. 146).
  8. Heath (2011, p. 27) also identifies 'minority public goods': 'There are certain goods, however, which stand to benefit only a relatively small number of people, but where the group is difficult to identify and for various reasons is unlikely to self-identify . . . Examples would include hosting the Olympics and sponsoring athletes, having national parks, funding art galleries, and promoting cultural heritage events. Partisans of state involvement often try to posit subtle externality effects that enhance the welfare of those who are not the primary beneficiaries of these subsidies, in order to defend against the charge of rent-seeking. A more forthright defense would simply be to admit that the state is catering to a minority taste in these cases – a taste that would otherwise not be satisfied, because of contracting problems among private parties – but that because the state caters to a very wide range of such minority tastes over time, everyone is likely to benefit at some point from some such activity. Thus the overall activity of "providing minority public goods" can be seen as a public good.'
  9. The reluctance among the right to accept Pigouvian taxes is described by Heath (2011, p. 117): 'ironically, it is often the most tough-minded, no-nonsense right-wingers who go all soft when it comes to economic competition. People who would never be so naïve to

suggest that athletes might “voluntarily” refrain from taking steroids will turn around and push for “industry self-regulation” over government intervention, as if corporations might just choose to stop polluting or refrain from producing false advertising; and, ‘the right simply doesn’t want to admit that government is responsible for such massive improvements in our quality of life’ (ibid., 169). One may say that Pigouvian taxes are part of the ‘right’ price, since they help to internalize externalities.

10. This may well be the case when social welfare systems are compared on the basis merely of efficiency: the United States (US) system of health care, for instance, is inefficient (with high transaction costs and low participation rates and coverage) compared to Canadian or European systems. One might argue that the majority of US citizens sacrifices efficiency for an abstract idea of liberty, possibly ignoring our second (community) function of providing a material basis for a dignified human life.
11. One example of publicly owned companies providing urban utilities highlights this problematic setting: the City of Vienna owns its holding providing, for example, transport services in the city. Formerly, members of the city council (and citizens) could ask for information regarding the efficiency of public provision of services. Nowadays, all details of the company organized as a limited liability company are considered to be a corporate secret. Democratic control is thus lost, and citizens are mere consumers of services.

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