

Public Goods

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The classical conundrum of human morality leaves us unsettled in thinking about ourselves. What is legitimately ours as moral agents and individuals possessing both will and purpose and what do we owe beyond ourselves to others? And, conversely, what do other selves owe to us in respect of our selfishness?

Can we systematically do right by community if the place from where we start is filled with egoism? Or, must egoism be vanquished in order for morality to flourish?

This to me is the moral framework which surrounds discussions of what economists call “public goods”. Such goods have special characteristics: they produce many positive externalities; because they can be used by many at no additional marginal costs to anyone, they support free-rider; since no one can capture all the possible profit from the good they yield, there is no selfish incentive to produce them.

Public goods are a blessing and a boon; they add to society’s stock of social capital, promoting interactions, growth in knowledge, cleaner environments, and trust. They are akin to the good that Adam Smith famously said was produced by an “invisible hand” when private market transactions yield positive benefits to third parties, indirect and sometimes intangible consequences not really intended by the buyers and sellers.

But since private interest is unlikely to invest time and money in the production of public goods, societies that seek to enjoy them turn to government to provide what private markets will not.

National security, law and order, education, public health, roads and bridges – these are the most common forms of public goods. And, generally most advanced societies tax the private sector to pay for such public benefits.

Interestingly, the conservative point of view in recent years has pointed out that such public good need not always be provided by government. Government can tax but then pay private sector entrepreneurs to deliver the desired services – vouchers for education, food stamps to feed the poor, private companies running prisons or providing security services in Iraq.

Many are skeptical that public goods can be produced in sufficient quality by self-interested private actors seeking to vindicate their own schemes. Adam Smith's faith in "an invisible hand" is not shared by everyone.

And, the current financial crisis would seem to enshrine this skepticism as unchallengeable.

A financial service infrastructure of lenders, banks, traders, stocks and bonds, brokers, buyers of commercial paper, etc., is the heart and lungs of capitalism. Without financial markets, commerce and industry will struggle to fund their employees, their suppliers, and their plant and equipment. Few public goods are as needed as financial services.

Such services can be purchased, of course, and can be provided at a substantial profit. So, private firms in market arrangements can and do support the financial needs of advanced industrial societies and globalization.

And yet, as we have seen in this 2008 collapse of trust and confidence in such markets, private arrangements can lead to dysfunctional outcomes that erode the amount of public good provided. Such cycles of over-leveraging and then de-leveraging at the highs and lows actually produce "public bads."

I have been thinking about how to provide public goods recently as I walk our little dog, Jolie, in Mears Park near our home in downtown Saint Paul, Minnesota.

Mears Park is a public park covering a square city block, owned by the City of Saint Paul. It is lovely and well designed: flower beds artfully placed along curving paths; an artificial stream flowing under aspen trees to take advantage of the sloping terrain; shade trees in nice rows protecting a grassy slope; classical music playing most of the time. The Park is cool and verdant on hot summer days in wonderful contrast to the streets all around it.

I enjoy this park without really paying for it or working on it. The share of my city taxes that goes to maintenance of Mears Park is so small as to be irrelevant to my sense of my annual income and expenses. This is true for everyone who uses and enjoys the park.

But I notice limits to the arrangements that make for this public good. First of all, maintenance can be desultory and at times negligent. Grass may not be replaced when bare patches appear not cut when it should be. Broken benches are taken away and not replaced. Litter can accumulate on the paths.

Second, owners who walk their dogs do not always pick up after them. The poop can accumulate as bad examples are set by a thoughtless few and then others let their behavior fall to that inconsiderate lowest common denominator. Then Mears Park suffers from a tragedy of the commons – what is common and a potential public good becomes trashed and ruined by heedless individual exploitation.

There are no rules and no policing so individual short-sightedness (on Wall Street it is referred to as greed) gets the better of the public interest and, in the long-run, we all suffer.

What to do?

Mears Park also benefits from a group of dedicated volunteers. For no money and under no compulsion from the City, they plant and weck the flower beds and pick up the trash. Their personal commitment of time and money – for no market reward – really makes the Part a public good. Without them it would most likely be forlorn and run down; tawdry and off-putting; unappealing and derelict.

So as I walk Jolie (always trying not to forget bringing a plastic bag to pick up after her) I speculate as to why these volunteers give of themselves to bring to an anonymous public the charming good of a lovely part in the middle of a city.

Their commitment of their own labor, part of their values and personality, turns part of the public part into a private space. But a private space that is simultaneously shared with everyone who comes to the park. Sort of an invisible hand reaching out from them to all comers sight unseen. Only their work is very intentional and they know others can and will benefit from their labors.

It's odd: only a personal, private commitment brings out the best in a public good. Why do they do it?

I really can't answer the question. I only know superficially one or two of the volunteers. One loves flowers and to garden. Working in the park gives her pleasure and a sense of achievement that she can't get in her neighboring apartment. The other just seems like a good person, a good citizen who goes out of his way to help others.

Some trait of personal character, therefore, something in the inner moral make-up of these two volunteers brings about a public good that I can enjoy without paying for it. I do, of course, always try to thank them when I meet them working on their allotted sections when I am walking Jolie. It seems the least I can do to reward and encourage their good citizenship.

It is a civic virtue I would say. And Saint Paul is better because of the energy of that private virtue. Such virtue is a profound public good that gives up many benefits.

What if all the volunteers just walked off the job and stopped taking care of the part? Should there be retribution for their thoughtlessness? We would all suffer some and be disappointed. Our expectations of what the Park could be would be dashed.

We don't discipline volunteers do we? Just like we don't discipline private entrepreneurs when they walk off the job of providing us with public goods that we have come to rely on.

But is there a point where the co-mingling of private efforts and resources with the production of a public good becomes so material that negligence in the private efforts should meet with some disciplinary consequence to vindicate the public interest?

There is actually law on the point. In the 1875 United States Supreme Court Case of *Munn v. Illinois* the Supreme Court held that when a private business is so conducted that it knowingly becomes “affected by a public interest” that business subjects itself to public supervision and control.

The case involved a monopoly of the grain trade through Chicago, affecting the price of wheat for farmers in the West and of bread for consumers in East. The monopoly was of grain elevators that received wheat from Minnesota and the Dakotas, stored it and then reshipped it to mills and bakers in eastern cities like Boston, New York, and Philadelphia.

The business of running the elevators was private, but the consequences of the prices charged for grain storage impacted the public. The business was, said the Supreme Court, affected with a public interest – it was providing a public good in facilitating wealth and commerce and good diets for consumers. The public good was external to the income statements and balance sheets of the grain elevator companies, but none-the-less was a real good in the lives of those who depended on the trade in grain.

If financial services provide vital public goods, then the public should have a say in the risks put upon the public by those who put their capital into financial services. Private property so used in a chain of consequences should be burdened with an easement in favor of the public so that excessive self-regard does not lead to a tragedy of the commons and the destruction of wealth.