



The Valuation of Public Goods--Comment

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by Mason Goffney

We live in an era when people keep rediscovering economics and giving it new names. "Cost-effectiveness," "McNamara methods," "benefit-cost analysis," "program budgeting," "systems analysis," "operations research," and so on, are some recent variants. Any set of principles that keeps getting rediscovered must have some merit, but the continuing need for euphemism suggests some public relations problems. My professional defensiveness is therefore easily aroused by one of my peer's telling us that economics isn't as good as subjective value judgment by administrators. I will try to say a word for our discipline.

Professor Davidson's paper is at once stimulating and frustrating, something like ecstacy, but more like a public works program in the U.S.: too many starts, too few completions. It is hard to come to grips with the points which are incompletely developed. But the show must go on, so I will read between the lines where necessary and, if I misrender an intent, accept corrections in good grace.

Davidson has given an excellent summary of some basics of welfare economics, and some history of economic thought. At this interdisciplinary gathering that is fitting and useful.

There are two antithetical traditions in welfare economics. The one looks for criteria of decision and policy; the other delights in piling up difficulties and finding reasons to question any positive decision or policy. Davidson stands squarely between these two great traditions. He piles up difficulties as a Hamlet to the manner born; but he also comes to a firm policy--against user charges. He favors large public investments, justified by their externalities and demonstration effects and their value as options to non-users, as well as their direct and obvious benefit to users. Even the difficulties which he stresses point to a positive conclusion: that objective measurement is vain, that subjective value judgments must prevail, and that insistence on measurable standards of value results in serious underestimate of output and hence uneconomically small projects.

I share Davidson's concern about the excessive and exclusive enthusiasm for user charges and average-cost pricing shown by some economists. There are many services and operations chronically in the stage of decreasing costs,

with marginal cost always below average. As he says, these need support from other than user charges, and I support his emphasis on the point. However I believe he has overstated the case, and being an economist of the extreme center I will therefore react by balancing it out with several reservations and criticisms as to detail.

1. If services are not covered by user charges they are likely to be covered by taxes. But excise taxes have the character of user charges, being functions of use. The fathers of marginal cost pricing were generally not content to subsidize decreasing cost operations from "general" taxes. They specified land, income, or inheritance taxes.

2. The concept of a "pure" public good is nearly a nonesuch. The general case is that of goods whose marginal cost is below average cost, but still above zero and quite able to rise far above average cost if the area served becomes congested during times of peak demand. No one who has experienced rush hour at Yosemite Park can believe that recreation resources all fit the "pure" public goods pattern. True, one more pair of eyes gazing on the waterfall do not impair the beauty, but the owner of the eyes takes a campsite and road space, limited resources that have to be rationed.

If Yosemite Fall truly met the criterion of a pure public good--no marginal cost--then one fall would serve the entire world. Obviously some factor has been omitted, and that is space. The fall serves a limited space, and access is rationed by control of the space, which generates rent.

So with streetlights, allegedly pure public goods: One more stroller adds nothing to cost. However street lights are not built for strollers but for landowners. The light serves a limited space, and the benefit is rationed by land ownership. The same goes for flood control, mosquito abatement, and a thousand measures of environmental enhancement.

In an important earlier work on the depletion allowance Davidson drew fire for overworking the idea of rent. Here he has overlooked it, instead. Much that seems nebulous and immeasurable in the abstract becomes more tangible when one comes down to earth and measures the rents that are generated. Many elusive values such as the psychic value of security from flood, amenities, and ethereal environmental enhancement are measurable in the premium that people bid for land near the fount of value.

The rent enhancement measure of value lacks the utter simplicity of a market in which you either buy a package of gum or not. Access by space

occupancy grades off with distance from a 100% location. But Clawson has already overcome much of this problem in his use of rent gradients to measure the value of parks. Ridker and Crocker are using multiple correlation analysis to relate land values to specific air enhancement measures. Knetech has related reservoir services to riparian land values, as has Ullman. And if that is not convincing, investors sink billions of dollars into artificial lakes and marinas, recovering their money by selling lots.

Davidson is forcing us to think when he plumps for marginal cost pricing. But he is misleading us to intimate that marginal cost of using recreational resources is normally very low and that overpricing is the common sin. Most students of recreation have rightly stressed the lack of tenure protection, excessively open access and underpricing. Davidson emphasizes the fallacy of understating benefits by insisting on measurement, but he has fallen into the error of understating costs by understating congestion externalities. The result is an unbalanced treatment and overstated conclusions.

Indeed, his approach would virtually deny the existence of a pollution problem. For what is pollution but an extreme sort of congestion, where marginal social user costs have become very high as excessive user demand presses on a facility of limited capacity? Allen Kneese's effluent charge for pollution control is the sort of user-charge that most economists would support in this circumstance.

3. I see little rationale for crediting public works with a special learned-demand benefit. Private products also stimulate a learned demand--so should we subsidize them, too? Remember a subsidy to one class of products is a penalty on others.

If we begin this game, then, we must rank goods by their ability to stimulate learned demand, and probably heroin would lead the list. That should give us some pause in pushing the idea. Even more terrifying is the prospect that advertising might have to be subsidized to increase our welfare by teaching us to demand more Cokes, Balis, Winstons, Canadian Club and other uplifting commodities.

The philosophers seem in accord that happiness ensues from constraining desire, and an excess of desire over fulfillment equals misery. We all like having options, up to a point, but we have only 24 hours a day. To take my money by taxes to create a new option, and reduce my power to satisfy older desires, may well reduce my happiness.

4. I question that we are usually "myopic" and overweight the present. On the contrary, I hear all about me the old undaunted cry of pie in the sky. Professor Boulding, writing of research in modern industry, has rhymed:

"... and firms spend funds they do not hafter
in hope of benefits hereafter."

Public works are worse offenders. They specialize in slow payout. Many of them return benefits so greatly deferred as to be economical only at interest rates near or below zero. We continually reduce our present welfare to pour public capital into projects of the most deferred benefits imaginable, and we have rigged the income tax so as to encourage private investors to defer payout to convert ordinary income into capital gains.

5. Concerning the value of having options, there is such a thing, but it is valuable to have them in the present and not just in the future; and it is valuable to have options to private as well as to public goods. The non-buyer who values the option should pay for it, and he does. That is why people locate in cities, to have many options; and they pay for it in land rent.

6. Succeeding generations of users of a durable good are not entirely non-competing, as anyone knows, who has ever been evicted, or raised broilers on wire. Each generation competes at the margin with those before and after.

7. I deplore his policy conclusion that analysis is vain and value judgments must prevail. That simply means the Tower of Babel.

The world is full of professional fundamentalists: sylvan, horticultural, nationalistic, internationalistic, medical, highway engineering (pour cement or perish), wildlife, skiing, pure science, farm life--you name it. Each group develops its private language, including a scale of values in which its works are sacred and others' profane.

Did I hear someone say there are also economic fundamentalists? No doubt. But the discipline is inherently broadminded, because a prime function of economics is to arbitrate among fundamentalists by providing a common tongue in which all can communicate, and a common scale for balancing one group's values against others'. The common measure is the dollar. This measure has its faults, but the critic of the "almighty buck" is often a minority fundamentalist whose viewpoint is unpopular and therefore screened out by the common measure. Some of these fundamentalists are "hard" scientists who possess their share of vocational centrism. One of the ironies

relished by economists is their work in the Budget Bureau, where soft scientists make hard decisions about soft programs in the hard sciences.

8. It is not impossible to measure the value of public goods, just difficult. The increase of land values, or net rents, in the service area is one obvious approach which is much used. The drop of fire insurance rates is a standard way to measure the value of fire protection, along with the drop of risk premia on mortgage loans. The rise of auto insurance rates measures one of the costs of increased auto congestion. And so on. A little G.I. ingenuity should be tried before anything is declared impossible.

9. It is a myth that government policy shows a systematic bias against non-measurable benefits. Most public money is spent for war. Religion gets a big share, if only through tax exemption. Exploration for new territory, minerals, the moon--who measures them? Other immeasurable favorites are rural life, home ownership, suppression of "vice," education, welfare, forestry, water, and outdoor recreation. I would like to see more evidence of the alleged bias putting the burden of proof on planners to show market failure before being allowed to plan. The only place that seems to prevail is at the Universities of Chicago and Virginia.

10. Davidson understates the extent to which private enterprise can engage in other than simple average cost pricing. Some of its devices are: price discrimination, peak load pricing, standby charges, insurance rates, flat telephone rates, cover charges, minimum service charges, etc. He also overstates the virtue of governments, which can act as monopolistically as any private firm: witness Alberta with its oil, Holland with its natural gas, the Organization of Petroleum Exporting Countries (OPEC), the U. S. Forest Service, towns with municipal power plants for monopoly profits, etc. Economic merit does not lie entirely with public enterprise or private enterprise: it lies with enterprise.

11. As I recall the summer roar of Seahorse motors on peaceful lakes, the oil slicks, the loud speaker radios, the boat toilet problem, and the beer can outrage, I lose enchantment with the notion that the marginal boater is such an innocuous fellow who sheds no external costs. The marginal swimmer maybe, but how much space is he allowed? The age of genteel canoeing is dead. Man has so magnified his powers to invade his neighbor's privacy, and placed such terrible engines of nuisance in the hands of so many barbarians and adolescents who are enjoined from releasing their aggressions in useful labor that the marginal curve of psychic pollution rises vertiginously. So long as

we refuse either to civilize or employ our young, the only salvation is to tax their more destructive pursuits, and certainly not to pretend they aren't bothering anyone.

12. Concerning those clever window-shopping free-loaders who benefit from having options which they do not exercise, here is the one example I see in Davidson's paper where marginal cost really is zero. It strikes me as inconsistent that he wants these beneficiaries to pay when they impose no cost. Why does he not treat them in the same open-handed manner he recommends for off-peak users of a facility?

They do in fact pay for having many options when they pay location rent. Why would a man pay \$70 a month to garage his car in Manhattan when he could park free in Weary Prairie, Montana? He is paying for access to options, and the social cost he imposes is that of occupying limited space with best access to options. But he does not pay those who provide the options, and if we want government to collect some of this value to reward the producers we can do it by raising taxes on site values and lowering taxes on producers.

13. I have yet to find a cost-benefit analyst limiting his benefits to output measured at market prices, as Davidson complains they do. Much of the drive for cost-benefit analysis was to rise above that practice, which is the accountants' "financial feasibility" reckoning. Cost-benefit analysts of western reclamation projects seek to capture consumer surplus in several ways, the most obvious being to count as benefit the rise of land values under the ditch. Then they go on to secondary benefits, etc., and Professor Davidson seriously understates their ingenuity and imagination in finding hidden benefits from projects of their interest. Many fine political and bureaucratic careers testify to the practical application of these skills, and many Western congressmen would be hurt to realize how poorly Professor Davidson rates their descriptive and visionary powers. They can take comfort however in the greater appreciation in Congress, witnessed by white elephants strewn over the deserts from Mexico to Canada.

Consumer surplus is not entirely omitted from the national income accounts. The value-in-use of irrigation water, above its price, obviously accrues to landowners as higher money rent. Residential-recreational amenities increase the value of residential-recreational real estate, yielding an imputed income to the owners. Nebulous conjecture? Maybe so, but it is included in the

national income as computed by the Department of Commerce.

In conclusion, I reemphasize that Professor Davidson has a basically sound point. There are resources and facilities with great excess capacity, approximating the "public good" prototype, and it is an economic crime to overprice their use. My critical tone is intended primarily to convey that Davidson might strengthen his perfectly valid case by discriminating more carefully among situations and acknowledging a greater scope for user charges for congested facilities.