

Public goods, individual action and social context

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Abstract

Starting from the premise of a rational human behavior, the article develops an analysis of this type of conduct referring to public assets. In the first section, we will debate different individual strategies concerning the anticipated utility in case of agreement, insisting upon the advantages, disadvantages and risks generated by different types of strategies. The second section approaches the theory of public assets and the importance generated by different sorts of reasoning connected to "the clandestine passenger". The last section of the article points out the importance of the social contract through the state's double role: that of being a "protective" and a "productive" state at the same time.

Keywords: Buchanan, public goods, individual behavior, productive state, the limits of freedom.

Theoretical premises

The founder of the School of Public Elections, James M. Buchanan has the merit of bringing into attention the multiple analyses of the relationships which are instituted between the political sphere and economical sphere, as well as the extension of the research tool typical to economical science at the analysis and the interpretation of political phenomena and processes.

Seen from a general point of view, Buchanan's research highlight the idea that both the collective and individual choices stand under the sign of the individual following his own interests, a fact which

explains the behavior of the politician or the public worker of being preoccupied rather by their personal interests, than by those of the "public good".

Secondly, Buchanan's work focuses on the thoroughness of certain aspects connected to the access to public goods and to the financing of these goods through taxes, the behavior of social actors which intervene in the economical and political sphere, the functioning system of the rules at the different levels of structuring the economical and social life, or the definition of the intervention limits of the state in the economical life and regarding individual liberties.

Thirdly, the analyses conducted by Buchanan make a distinction between the holistic and individualistic methodologies of approaching these issues. Thus, if the holistic theories analyze social phenomena and processes from the perspective of the social as a whole, the methodological individualism states that the sphere of the social can only be understood by taking into account the actions developed by the individual actors.

Starting from these premises, we will hereby analyze Buchanan's conception regarding the public goods and the practical significance of the social contract, as they are presented in an important work of economical and political science - *The Limits of Freedom. Between Anarchy and Leviathan*.

The anticipated utility and the strategies of interaction

In the first analysis, Buchanan is concerned about the contractual relations between the partners of an agreement whose decisions are motivated by individual interests, as well as the way in which the negotiation of these interests may lead to a settlement acceptable to both parties. The starting idea is the presumption of rationality of the subjects in interaction. This means that people have preferences regarding to the items they intend to perform, that they have the freedom of choice in terms of objectives; they choose the actions which can help them achieve their goals and that people know they do not choose in isolation from one another, but in a society of other elector subjects. (cf. King, 2005, p.125).

Analyzing the logic governing the selection of a strategy for action, Buchanan acknowledges that "for each person there is an advantage to violate the law, not to comply with the limits of behavior set out in the contract", but all those involved in an action will see their

increased usefulness if the terms of the agreement are respected as they were established (1997, p.54).

The author illustrates this through a simple matrix with two persons A and B, the numbers on the left of each cell representing the utility indicators or the value of the net reward for person A, and the numbers on the right the utility values for person B.

		The behavior of person A	
		Respect the agreement	Breach the agreement
The behavior of person B	Respect the agreement	Cell I 19; 7	Cell II 3; 11
	Breach the agreement	Cell III 22; 1	Cell IV 9; 2

Fig. 1 The anticipated utility within an agreement (after J. Buchanan, 1997, p. 55)

As can be seen from Fig. 1, both person A and person B can choose between two alternatives: they can comply with the agreement, which involves respecting the rights set to the other person or, successively, each person may violate the agreement acting in its own interest. If both parties refuse to undergo the established contract (cell IV) the result equals a loss for both A and B (9 utility units for A, respectively, 2 for B), unlike the situation of compliance with the contract (cell I) when both parties are in advantage (19 utility units for A and 7 units for B). As shown by the numbers of cells II and III, each person is tempted to violate the agreement relying on maximizing their own utility: cell III is preferred by A, who violates the agreement, while B respects it; cell II is the favorite position for B, where A has complied with the agreement, but B violates it.

The four possible situations of compliance (R) or violation (I) of the Agreement, and the choices made by each of the two people can be represented as a matrix in Fig. 2.

		The behavior of person B	
		R (respects the agreement)	I (violates the agreement)
The behavior of person A	R (respects the agreement)	RR	RI
	I (violates the agreement)	IR	II

Fig. 2 The behavior of social actors according to their personal interest

Reporting the data in this matrix to the utility anticipated by each of the two parties, the preference order of person A and that of person B is distributed as follows:

Person A: $\hat{R} > RR > \hat{I} > R\hat{I}$

Person B: $R\hat{I} > RR > \hat{I} > \hat{R}$

As shown, the violation of the agreement is the most advantageous conduct that may be adopted by each of the two parties but, as noted, this type of action makes possible the emergence of the possibility to counteract the unwanted effects of actions aiming only personal interest. In a situation limited to two people, says Buchanan, "either one or both people may refrain from violating the contract because they can reasonably anticipate that the reaction of the other would force the rapid return to pre-contractual state of nature" (1997, p.55).

The key of individual behavior is cell I (contractual situation), because none of the two parties can not rely on a better result than that from a cooperation agreement based on respect, any infringement or violation of the contract contributing to a worsening of their own situation. "Each person, writes Buchanan, will recognize that the unilateral abdication can not succeed and that any attempt to do so will cause the regression of the system in a position less desired by both, than that achieved by the contracting perspective" (1997, p. 104).

Even if the formal characteristics considered remain unaltered, the stability suggested by the matrix in Fig.1 tends to disappear as the number of participants in the interaction increases. Such a change is assimilated by the author by passing from the exchange of private goods to the exchange of public goods, whose particularity is "the social contract".

Involving all the members of the community in the negotiations, "social contracting" takes place in two stages: a stage of constitutional contract, where the agreement is achieved on account of an allocation of individual rights and a post-constitutional stage, where the individuals reach an agreement upon the parts of the cost of goods or services used commonly. At the same time, the contractual arrangement between two parties reduces the transaction costs to the minimum, while the increase of the number of participants multiplies the alternatives one can resort

to and limits the possibilities of dispute between the partners to the exchange.

This second aspect represents the “strong point” of the theory of public goods, a theory where we are dealing with the individual’s position regarding the accepted norms for the development of the collective action.

What are public goods?

Public goods are that category of goods used by all the members of society and their consumption by an individual can not diminish the part which gets to be consumed by the other members of society. Moreover, if the public good was produced, nobody can be excluded from using it, whether we are referring to ensuring public order, access to an education institution, medical or judicial assistance, or to public lighting, the use of radio and television services or of the railway system. As a consequence of the impossibility to exclude the potential consumers, the entrepreneurs on a free market aren’t motivated to produce public goods because of a very simple reason – they couldn’t commercialize them.

The costs of a transaction in the case of public goods being much higher because of the increased number of involved in the same negotiation or exchange process lead to the appearance of “free-riders”, namely those people whose interest is to make sure that the benefits of certain services or goods consumed in common, without participating to their afferent costs. The fear of the solicited person to contribute to the accomplishment of the public good is that he will spend from his own resources, but the public good will be also used by those who had no contribution to it. As the exclusion from the use of a public good of the consumer with no cooperation to its realization is impossible, the best individual solution seems to be that of not getting involved in the spending of their own resources. However, multiplying this strategy after the conduct principle to all the members of society, it will eventually lead to negative results, the public good not being able to be produced any more (cf. Gilbert, 2006).

Starting from the conclusion that market economy can not produce public goods and services with efficient results and from the existence of free-riders who generate a “failure of the market”, Buchanan develops the following argumentation:

- In deciding to participate to the creation of a public good,

the individual needs to know the benefits and the costs of contribution to the different levels of cooperation, as well as the number of people estimated not to take part to the creation of the given product. If within a small group the individual realizes that his own behavior will also affect the others, in large groups he won't consider that his action can exercise any influence upon the actions of the other members of the group.

- In the process of social interaction there are actions which have consequences only for those who control them and actions which have external consequences or externalities for the individuals who don't have control over the activities. If for the negative externalities the question asked is that of limiting the action, in the case of positive externalities the problem is how and when to encourage them. A special situation where there are positive externalities is the payment of the cost of a public good, when the action of each individual brings positive consequences for the others, thus actually getting to the creation of the public good.

- The contribution to the creation of a public good also used by those who exclude themselves from financing it, makes those who cooperate have lower benefits than the cooperation costs. According to the principle of rational choice, the individual is tempted to maximize his usefulness "by refraining from independently contributing to the supply and financing of the goods and services used in common" (1997, p.69). In these conditions, the public good can be created only if there are sufficient contributors so that the benefits can overpass the costs assumed by each individual.

- The behavior of those who benefit from a collective good, without getting involved in the costs generates an externality compensated by imposing taxes and rates to cover the production costs of the given good. Although the abstraction from paying the taxes is rational for the individual, from an economic point of view, such a behavior creates "public damage". "The person in question imposes an external dis-economy to the other members of the group, to all the potential beneficiaries of the consumed good or of the service financed from this tax", the failure of ensuring "the public good" being equal to the production of "public damage" (1997, p.172).

- Although it is desired that all those who don't cooperate to the creation of the public good to be sanctioned, the people who contribute to the afferent costs of the public good prefer to remain

passive. The reason is a practical one: the costs of monitoring and applying the punishment are high, and the benefits from the punishment are low, because they are split to all the participants to the creation of the public good. The exclusion of free-riders from participating in the benefits of public goods would involve a partial or total “exclusion” from the community they belong to, and in other cases it would be extremely costly for those in the group of participants to the costs of creating the public good.

- The creation of public goods and services involves instituting a taxing system, the rule of humanity from the collective action being substituted with the rule of the majority. This change equals with the passage from the constitutional control which defines individual rights and the rules of the collective decision, to the post-constitutional contract through which we have the possibility to analyze the political processes which involve exchange of public goods. The problem emerged in this context is that of the necessity of “defining ‘the rights’ or limits of the person who takes the decisions for the collectivity, as well as those of afferent to the people in the collectivity” (1997, p.82).

- The constraints upon the collective action need to have a constitutional basis, because in its absence the individuals are stimulated to invest resources in ensuring control upon the collective decisions. The people who control the collective decisions are motivated to use these means in order to create the private goods and less for the production of public goods that can be used by all the people in the given collectivity.

From Buchanan’s argumentation two extremely important aspects result. Firstly, a norm or a rule is functional within the interaction only when the participants are capable of sharing adequately the costs involved by the production of a public service or good, as well as to generate sanctions for those who sustain themselves from contributing to the creation of the public good.

Secondly, we must remember that the individual optimum doesn’t coincide with the social one, or, in other words, each individual is tempted to plead only for his own interests, without taking into account the costs of this behavior for the other members of the given group or community.

Since within a larger or smaller collectivity someone has to take on responsibilities, the question posed is the following: which would be

the means through which the actions of the individuals can reach the social optimum? The discussion of the solutions envisaged by Buchanan and by other authors preoccupied with the idea of social optimality will be done in the following pages.

The stages of the social contract and the role of the state

From Buchanan's perspective, the distinction between the constitutional and post-constitutional stages of the social contract gives us the possibility to interpret the functions of the state through two distinctive roles. In the constitutional stage, the state is an institution with a protective role, having the responsibility of applying the rights of the individual and of the contracts which involve the changes voluntarily negotiated within the members of society. This type of states can not be conceived as an embodiment of community ideals "above the individuals' accomplishments", its meaning being that of imposing rights upon property and surveying the conformation to the contracts. The main characteristic of the "protective" and judicial state is that of not constituting in a decisional body and, consequently, not making "choices" for the members of society. In such a context, the judicial system which is applied is the one specified through the so-called initiated contract of the "imposing structure", regardless of the aspects of the collectivity's decision. However, the "protective" state also has an alienating dimension for the human condition, especially when the people with different roles in the social hierarchy drift away from the established rules to increase their power or to promote moral objectives chosen on subjective criteria. These make the state to be eventually regarded from its repressive side, and the compliance of the rules to be done only through the perspective of the sanctions imposed to the individuals.

In the post-constitutional stage, the state reaches the situation where the citizens accomplish their objectives in common, "each of them entering in the contractual or exchange process with rights allocated in the fundamental judicial structure" (1997, p.142). Such a state is "protective" because it permits the government to take significant political decisions, to assure the participation of the members of society to the collective option, to extend the global limits of economic well-being and to supply public goods and services. Definitive for the "protective" state is the fact that "the decision-making process at the governmental level involves understanding upon the

quantities and the sharing of the costs”, and the solving of the conflicts of interests is obtained by using different methods of compensation and through promoting compromises among groups and people. The result is the edification of a double function of the state – that of making the constitutional order respected and of supplying public goods.

The problem raised by Buchanan is that of the mechanisms through which the individual expresses his preferences for a certain option and the way in which these preferences are taken into consideration within the public decisions. From this point of view, two possible actions should be taken into consideration. One of them consists in the organization of the direct vote or of the referendum, an aspect difficult to achieve due to the costs it involves, as well as the set of actions envisaged by public decisions: regulations regarding the functioning of markets, the elaboration of social programs, negotiations for deciding budget allocations, the application of the policies of taxes and rates and so on. Another possibility is that referring to the decision system through representation, according to which the different aspects of economic policy are formulated in the programs of political parties, brought to the awareness of the electors on the occasion of electoral campaigns and put into application by the state administrative system on the basis of a decisional flux as the one represented in Fig.3.

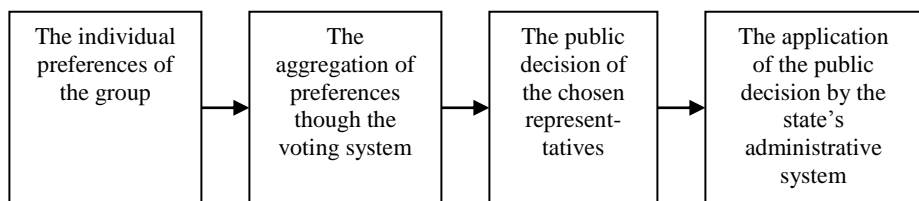


Fig.3 The flux of public decisions
(after A. Iancu, 2000, p.138)

Buchanan draws attention upon the fact that the collective decision is based on the rule of the majority, a certain part of the members of society being in the situation to accept the conditions of the social contract, even if they suffer losses in terms of opportunity costs. At the same time, the “productive” state’s assumption of responsibilities for the exchange process which ensures the supply of public goods makes it rare that the “medium” citizen should support the budgetary scheme which he is required to support and pay. The practice of

participating to the public decision shows that “the individual losses of opportunity increase with the increase of centralizing the public sector, similar to the increase of the budget in terms of size and complexity. In return, the individual’s feeling of participation to the collective option “is relatively larger in local structures (...), because the influence of a single person upon the decision group is inversely proportional to the size of the group” (1997, p.150).

After the decisions regarding the financing of public goods and services have been taken, they become compulsory for all the members of society, the “productive” state finding itself in the situation of appealing to its complement – the “protective” state with its whole system of laws and regulations. The costs-benefits analysis regarding the behavioral constraints imposed by law reveal an extremely interesting aspect: if the individuals focus on respecting the law, the maximization norms of utility give birth to surprising adhesions, even in the absence of the constraint instrument, the institutions with roles of imposing and constraint acquiring a secondary importance. However, the constrictive institutions are necessary for the simple reason that “individuals don’t freely pay taxes, even if their personal benefits from public expenses surpass the nominal level of the taxes (1997, p.172).

The “productive” and “protective” function of the state doesn’t have to lead to the deterioration of individual liberties, and the constitutional order supported by Buchanan should take into consideration two fundamental premises: a) the existing institutions and those which are to be created for the public election need to “be analyzed in the terms of certain criteria of promoting an ‘improvement’, well defined by the potential and independent agreement by any description done beforehand” (1997, p.232); b) a more detailed description of the significance of public good or “a good society”, beyond the agreement detected or anticipated between different social groups.

Conclusions

As one can conclude, Buchanan’s analysis suggests numerous perspectives and offers the possibility of interesting and surprising debate. Leaving the reader to decide between choosing one approach or the other, I would highlight two aspect which seem especially important for our discussion and upon which the author repeatedly insisted in his paper.

First of all, I am referring to the fact that the governmental action and the democratic institutions mustn't be preoccupied with producing "public good" or by the "welfare policy", because these involve the extension of the sphere of bureaucratic control, the increase of social costs, wasted resources, uncovered transfers of rights between individuals and groups, the search for personal or group profits by use of the political mechanism, all having negative consequences upon the arrangements specific to the state of right.

Secondly, in a market economy the state is nothing but the aggregate of individual actions, while the theories which prevail in "welfare economy" are based on an organiciste perspective upon the state. It is represented by a super-national entity which acts for the common good or is hidden behind "the function of social welfare", seen as the collective equivalent of the functions of individual utility.

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