Chapter 5
The Public Economy: Elements of a New Theory

Crucially absent from current economic thinking and from current principles of public management is an understanding of the forces and dynamics of nonmarket production in the public economy. In order to revitalize the practice of public administration, we need a new conceptual framework: a model of the public non-market economy.

Imposing market axioms and precepts on the public non-market is not merely ineffective; it is too often disastrous, as I detailed in previous chapters. The market model wreaks havoc because it is neither apt to the public economy nor disposed to accommodate its intrinsic differences. As I enumerated earlier, the market model falls flat for important reasons specific to the public non-market, where

- The basic dynamic is not exchange: the producer does not sell and the recipient does not buy.
- Supply is free or with fees that are not economically significant.[1]
- Recipients pay collectively, before goods and services are even produced.
- Choice about what to produce is made collectively, emanating from the polity but as intermediated by elected representatives.
- Revenue is received from—or withheld by—elected officials; it does not come from "customers", no matter how well served or how satisfied recipients may be.
- The monopsonist is often powerless to dictate price.
- Invisibility of products and absence of problems are indicators of effectiveness and hallmarks of success.
- It is devilishly difficult, and has mostly proven impossible, to concur on and to measure what matters.

In this section I outline basic elements of the public nonmarket economy. I present a conceptual model of the forces and dynamics of production within this

[1]See definition of "prices that are not economically significant" in *NIPA Handbook—Bureau of Economic Analysis*, Nov. 2011.

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distinctive environment. I explain how these characteristics differ from the market model and why those differences matter.

The State as Producer

In grammar school we learn that government has three functions—legislative, executive and judicial. The function of the "Executive Branch," or so we are taught, is to carry out or enforce the laws passed by the Legislative Branch. However, the term "executive function" is misleading: it sells short what that branch of government actually does. In reality the function of the Executive Branch is largely *production* (with characteristics and dynamics much more complicated than those portrayed in the neoclassical economic model and its "production function").

Neither economics nor public administration theories adequately address the state's function as a producer. Neoclassical economic theory squints at government through the lens of "market failure," blind to government's presence as a legitimate economic producer in its own right. Tellingly, Adam Smith had a broader view of the functions of government than today's mainstream economics. He acknowledged that government's functions include providing education and building infrastructure, such as roads, bridges, and canals (Adam Smith cited in 2013). This role however has been conveniently forgotten by market advocates, while Marxist economists generally ignore the dynamics of non-market production by government in societies that are primarily market-based, concentrating instead on the stages and perils of capitalism. Political economists are concerned with the "powers" of the state and of its branches, rather than its function as producer.[2]

At heart, the field of public administration concerns the state but generally does not engage with concepts of public production. This avoidance is sometimes explicit and intentional.[3] In other cases it may be in order to keep econometricians from annexing the discipline. "The language of buyer and seller, producer and consumer, does not belong in the public domain," writes Marquand as quoted by Thomas Diefenbach (2009); "nor do the relationships which that language implies."

[2]For example, writing about "America in Decay," political economist Francis Fukuyama (2014) talks about "the executive branch that uses power to enforce rules and carry out policy."

[3]In an encyclopedia entry on NPM (Hood 2001), we find Christopher Hood a widely-cited scholar of NPM in Europe, writing that "Gregory's controversial claim that orthodox managerial approaches foster a 'production' approach to public services that leads to several unintended effects, including downgrading of responsibility and what he termed 'careful incompetence." It's not clear why a "production" approach is seen as the cause, rather than the market-centeredness of NPM. A similar avoidance of the economics of production may be found in Stephen Osborne's critique of NPM as overly reliant on product-focused management theory which has been derived from research on the manufacturing sector. But his focus (Stephen Osborne 2006) is on debates about administration versus management, products versus services, and intra- versus inter-organizational theory, all of which miss the critical issue of a destructive reliance, in actual government practice, on market-centric principles in the midst of a non-market.

This declaration misses the nub of the problem, which is to explain why the public economy, however much it produces, should never be presumed to operate like a market entity.

In reality, much of what the state does is carry out production. This is the case whether done directly by government employees or contracted out. In the public products economy, production is shared between the legislative branch (with its powers to *authorize and appropriate*) and the executive branch, which bears the responsibility for actually *producing* those goods, services, benefits and other products.

One of the few who has described the function of the state as producer, and did so eloquently, was Paul Studenski, a professor of economics at New York University (1927–54), an authority on public finance, and a frequently-cited historian of national income accounting.[4] I can do no better than to quote at length from his essay, "Government as a Producer" (Studenski 1939):

> In every type of political organization known in human history, from the most primitive to the most elaborate, government has had to furnish services satisfying important needs of the members of the society, help them to make a living, influence their productive processes and consumption habits, manage economic resources to these several ends, and generally function as the **collective economic agent of the people**. The productive character of government activity was recognized by political and economic philosophers from ancient times down to the earlier part of the modern era. [Emphasis added]

He then dissects the history and illogic of the "theory of non-productivity of government", as I quoted previously in Chap. 1. He not only shows the source of that illogic as embedded in unproven assertions of market superiority, he also challenges the supremacy bestowed upon individual choice:

> It is wrong to conceive of economic effort as being purely individual in character. **Under all forms of organized society, economic activity has required some collective effort in addition to the individual one, and this is still true of the modern society**. **The notion that production for exchange is alone "productive" is preposterous.** [Emphasis added]
>
> Production consists in the creation of utilities. Government furnishes services and goods which satisfy the two tests of economic value-namely, utility and scarcity. They satisfy human needs and must be economically used. Government is, therefore, engaged in production just as much as is private enterprise. Government employees are just as much producers as are private employees and entrepreneurs. To deny this fact is to demonstrate one's faulty economic education or the fact that one's idolatry for business has thwarted one's vision.

Now he lays out the differences between private market production and public non-market production:

> The productive activity of our society is divided into two main sectors-the private one in which production is carried on for profit and controlled by the forces of supply and demand

[4]In *The Income of Nations* (1958), Studenski traced the history of national income accounting and competing historical conceptions of production. Descriptions of Studenski's work can be found in Warren (2005) and Ogle (2000).

> operating in the market, and the public one in which production is conducted for common advantage and is controlled by political forces. These two sectors of the national economy, commonly known as the "private economy" and the "public economy," complement each other, each serving different needs of society…
>
> In the public economy…goods and services are produced which require the collaboration of all the members of society, and can generally be enjoyed by them only in common. They are largely intangible in nature, and in most cases cannot be divided into specific units and supplied to their users in that form. The services and goods produced in the public sector serve to maintain organized society… [including] protection of life and property, the administration of justice, and the regulation of economic activity…They also provide specific aids to private production, such as roads, and improvements of rivers and harbors…
>
> …Obviously, without the services of government, society would be in a state of chaos and all production would stop….

Many economists and public policy scholars are now making the case that businesses need government in order to produce.[5] Although this is now a fashionable theme, it is hardly a new idea.

Equally important, if rarely discussed, is the fact that mainstream economics in general has historically dodged the matter of production, focusing instead on "exchange." Economist Michael Perelman (2006) has called attention to this fundamental evasion within contemporary economics and examined its origins. The mainstream focus on exchange seems to have been a reaction to Marx, whose "analysis of production could be turned to demonstrate how employers exploited their workers." In reaction, many economists in the later 19th century "felt a need to recast economics as a science of exchange rather than production." Moreover, an economics rooted in exchange is more amenable to mathematical modeling, a method that gained favor as the study of "political economy" was transformed into a social science of "economics," with increasing claims to quantitative exactness. So today we have an orthodox economics that focuses on "exchange" within "the market," thus setting up a model in which the state has no legitimate role as a producer.

"Market Failure" Is not the Justification for the Public Economy

As Polanyi (and others) have told us, society is not a market; rather, governments *enable* markets. But most contemporary economics teaching ignores the fact that the state is a legitimate producer in its own right. The legitimacy of the state as producer is not, and should not be, dependent on a concept of "market failure," a concept launched so successfully by Francis Bator (writes Wentzel 2011) that it has become "one of the most generative ideas (theoretically and empirically) to emerge

[5]For example, see Sachs 2014 and Jan W. Rivkin, Michael E. Porter, Rosabeth Moss Kanter, David A. Moss, in "Can America Compete?" *Harvard Magazine*, Sept.-Oct. 2012, pp. 26–43.

from economic theory." Wentzel, however remains skeptical, for acceding to the argument that "The state is necessary because markets fail…plays into the hands of the libertarians, as the debate is implicitly based on the core libertarian assumption that such a thing as a 'free' market can exist."

The Public Economy and Popular Sovereignty

As taught today in most universities, economics elaborates on concepts about markets that originated centuries ago in an age of mercantilism and monarchies. Forms of societal organization have since evolved—most notably with the development of democratic nation-states. Conventional economics has not kept up. To be sure, other theories and models have appeared: Marxist, Keynesian, feminist, behavioral…. Yet in Western democracies the ancient model reigns. And not only are we taught that it accurately describes markets; it must also be applicable to government. In fact—in historical fact, economic fact—it doesn't. Many have come to think that it no longer works well even with regard to markets. However that may be, the historical, economic, and political reality is that the market model's precepts and axioms are regularly imposed on government at every level. This misapplication of antique theory is no mere problem of intellectual dissonance, sloth, or dishonesty; it's a recipe for disaster.

We lack a theory that reflects reality. In reality government is a producer. A workable theory of the public economy needs to explain how government production occurs. It must address two questions. First, what is the source of the public economy's ability to produce—that is, what is the source of its power? Next, where does it get its resources—its inputs for production?

For answers we must acknowledge the contributions of political science, as well as the historical school of economics, which holds that economic systems are related to, and differ by, various forms of societal organization.[6,7] From political science we have the concept of "popular sovereignty," upon which modern democracies are grounded, and wherein the power to act emanates from "the People" and flows from them through a constitution to that organization called

[6]While my thesis and conceptual model are not derived from the historical school, it is important to recognize this non-orthodox, non-mainstream perspective that, while alive for a while, seems to have been extinguished. In his book on the Historical School, Shionoya (2005) writes both of its importance and of its dismissal by orthodoxy: "The German Historical School, belonging to the tradition of historicism as part of German romanticism and idealism, wrought a radical transformation in the outlook of economics. Yet mainstream economics has never taken the impact of the [Historical School] seriously…." Yuichi Shionoya, *The Soul of the German Historical School; Methodological Essays on Schmoller, Weber, and Schumpeter*, Springer, Boston 2005, p. xiv.

[7]For a relevant and cogent analysis of the nature and functions of organizations see Domhoff (2005), who holds that "organizations are the starting point for understanding power."

"government."[8] In effect, in democratic nation-states, popular sovereignty creates a collective sovereign.[9]

To carry out the will of the collective sovereign, government must produce goods and services. While political science addresses the origin and delegation of *political* power (the power to make law), it does not address the origin and delegation of *economic* power, specifically, the "power to produce." An economic theory is required to explain and illuminate the dynamics and drivers of the environment in which government, using collective inputs, is able to produce.

The Public Economy in the Scheme of Things

While mainstream economics teaches that government—the agent of the unacknowledged public economy—is legitimate only where there is market failure, the reality is that government precedes the market, historically and conceptually. Governments existed before capitalism and before any theory of markets. Moreover, laws and public services must exist in order for markets to function at all. In effect, society enables markets, not the other way around. Indeed, as Braudel argued half a century ago,[10] there are multiple economies, not just a single, market economy. In addition to the public economy, we can speak of two other non-market

[8]In the framing of the US Constitution there was great debate about where sovereignty lay, whether with the federal government or the individual states. Ultimately it was decided that sovereignty rests with the People (Ellis 2015; Verkuil 2007, pp. 15, 81, 102). The original, late medieval concept of popular sovereignty was not directly associated with democracy, given that the concept of "democracy" itself was not held in high regard. Indeed, writes Ellis, "the term democracy remained an epithet until the third decade of the nineteenth century. It meant mob rule, the manipulation of majority opinion by demagogues, and shortsighted political initiatives on behalf of the putative 'people' that ran counter to the long-term interests of the 'public.'" With the passage of time, however, it has become widely accepted that popular sovereignty is the bedrock of the US Constitution and government, as well as of other democratic nation-states. Yet the embrace of popular sovereignty does not of itself yield a thoroughly democratic system. As even Wikipedia reminds us, "In most modern democracies, the whole body of eligible citizens remains the sovereign power but political power is exercised indirectly through elected representatives." Moreover, these days the ability of the people to exercise their sovereignty is being severely undermined (Verkuil 2007; Dahl and Soss 2012; Moe 1994; Lynn 2001). And as Susan George observes in *Shadow Sovereigns* (2015), "transnational" corporations have overturned democratically-enacted laws in order to pursue their own profit-maximizing ends.

[9]Although this Brief treats democracies, I would argue that my approach holds for those many nation-states organized under other systems of government. Wherever there is a public economy (and that would include all, or nearly all, nation-states), the market model is inadequate for understanding or explaining it. There is a need, rather, for a theory of public economics that identifies and takes into consideration the sovereign source of the power to produce, as well as the source(s) of the inputs for production, regardless of the system of government.

[10]Fernand Braudel (1981) *The Structures of Everyday Life. Civilization and Capitalism*. Volume 1; cited in *The End of the Experiment*; *From competition to the foundational economy*; Andrew Bowman et al. (2014, pp. 12, 116–118).

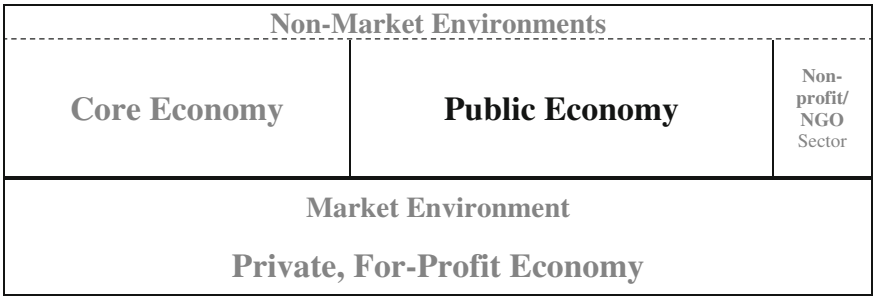

Fig. 5.1 Multiple economies

environments: the "core economy" and the non-profit sector. By far the larger is the core economy (Goodwin et al. 2014, pp. 64–67), representing the productive, unpaid, activity of households (notably not counted in calculating GDP). The core economy supplies the market economy with resources (e.g., labor) and demand. The other non-market environment is the non-profit or NGO community.

Thus, the non-market economy has three components: the public economy, the core economy; and the non-profit sector (Fig. 5.1).

The market economy could not exist without the core economy and the public economy. And it could not function absent the outputs of governments. Market-based businesses require such public goods and services as property protection, contract law, patent protection, communication and transportation infrastructure, as well as scores of other public products. Corporations owe their very existence to the public, collective sovereign, and derive their legal protections therefrom. But the public and core economies can, and historically did, operate without the market economy.

The Public Non-market Economy

The public nonmarket is that part of the public economy in which the production of goods, services and other products is capitalized collectively (through taxes), and is empowered through collective choice (voting), and in which products are provided free or below cost at the point of receipt or usage. In the U.S., the public non-market economy includes government operations at all levels—federal, state and local. The public non-market, in the conceptual model described in this section, does not include "government enterprises"—public entities that charge prices sufficient to cover the full cost of production. My thesis is concerned only with the public *non-market*. (It is important to recognize, however, that some public agencies have been transformed by changing their mission from meeting a public need to revenue generation, which leads to their characterization as "government enterprises" and

inclusion as "businesses" for purposes of national income accounting.[11] One such example is the U.S. Post Office (Backman 2012; Hamilton 2012; Jamiel 2014; Brechin 2014; Nixon 2013. See sidebar).

Government Enterprises that Aren't

Market advocates have transformed some public agencies into "government enterprises" by changing their purpose from meeting a public need into revenue generation. An example of this is the Post Office, a public service specifically enumerated in the Constitution, and which throughout most of its history was supported by collective payment (in addition to nominal fees). But the Post Office was re-defined by market advocates in Congress who succeeded in passing legislation in 1970 that required the (renamed) "US Postal Service" to cover all expenses through revenue generation. Having succeeded in transforming its driving force from public service to revenue production, these marketizers in 2006 imposed an artificial debt burden on the new entity so that it would become impossible to cover costs.

Elements of the Public Non-market

The public nonmarket economy differs from the market model on fundamental and crucial factors, which I detail in this section:

- Purpose: need-driven, not demand- or profit-driven.
- Systemic driver: collective choice, electorally manifested.
- Source of income: collective payment, not payment via exchange.

I then draw out particular features of the public nonmarket:

- Flow relationships and dynamics
- Agents in the generation, creation and production of public products
- Unique factors of public non-market production:

votes as an input resource
authority to enforce as a unique asset
natural resources and energy: the public role

[11]Arguably, a number of public agencies, such as public transit and local housing authorities, have been mis-classified by the National Income and Product Accounts (NIPA) used for calculating GDP. Because they are defined as "government enterprises", they are defined as "businesses" in NIPA accounting and their value added is recorded in the "business sector" for GDP purposes (Baker and Kelly 2008).

- Unique supply conditions: required rationing
- Unique products
- Public goods
- Expenditure without spending
- The absence of buyers
- Non-market efficiency
- Invisibility as a hallmark of effectiveness
- Non-rival supply
- The uncommon complexity of judging results.

In each instance, I explain how these characteristics differ from the market model and why those differences matter.

Purpose: Meeting a Societal Need, not Maximizing Profit

The fundamental purpose of public nonmarket production is to meet the unmet needs of a society[12]: to supply goods or services not supplied by other means, to solve difficult and complex social or economic problems, or to make goods or services accessible to all, regardless of ability to pay (Wuyts 1992; Desai 2003; Ranson and Stewart 1989, pp. 10, 12, 24; Galbraith 1958, p. 242), In many cases, the intent is to create positive externalities, sometimes immediate and sometimes long-term.[13]

In the market, access to products and services is expressly contingent on ability to pay. In the public non-market, supply is free or with fees that are not economically significant.[14]

It is axiomatic that non-market production is not about producing income or profit. "Societies run at a loss so that their citizens can live at a profit, in productive comfort" (Gopnik 2013).

Note that, though the goal of revenue-raising to cover the costs of production is inimical to the inherent purpose of public goods production,[15] as government is marketized there are constant demands to increase fees in order to replace collective payment.[16]

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[12]Note that "needs" includes the needs of people, organizations, businesses, communities or the natural environment.

[13]Weisbrod (1964) in an analysis of the long-term impacts of public education, makes the point that "when goods and services have significant external effects the private market is inadequate".

[14]See definition of "prices that are not economically significant" in *NIPA Handbook—Bureau of Economic Analysis*, Nov. 2011.

[15]The only justification to make revenue-raising a goal is to raise money to cross-subsidize the supply of other public goods.

[16]And of course, some public services, like the Post Office, have been required to cover all costs with revenues, tossing out the concepts of collective payment and universal access.

Need-Driven, not Demand-Driven

Non-market production is need-driven, not demand-driven.[17] In the public non-market, needs are articulated and become a systemic driver through the process of electorally-manifested collective choice.

Electorally-Manifested Collective Choice

In the public non-market, collective choice replaces market "demand." Public, non-market goods and services originate through the complex process of collective choice in the polity—i.e., voting. Voting, and hence democracy, is the "process by which individual choices are socially structured" (Gutmann 1987, p. 134, quoted by French 1998, p. 339).

In the real world, electorally-manifested collective choice is the generative source of public products. Public products are not created in response to demand. Instead, a variety of products—goods, services, benefits, and obligations—originate from the complex decision-making dynamics of collective choice and collective payment. This is in contrast to the relatively much simpler "supply" and "demand" dynamic of the market environment.

Mainstream economics has not offered a useful analysis of collective choice for purposes of understanding the public non-market, particularly that collective choice is the originating driver of the public production process. The topic is usually treated from a theoretical perspective, grounded in assumptions of the market model. No consideration is given to voting as a *resource input* for public production, and how this input impacts on the production process itself.

Of course, "public choice" economics addresses collective choice, but this school of economics is indentured to the market paradigm and does not look at how collective decision-making through voting eventuates in the production of public goods and services.

Methodologically individualistic, public choice economics maps a set of individual preference orders onto a social preference order (Wolff 2010). Public choice economics treats the concept of collective choice from an exclusively theoretical perspective, addressing questions of how collective decisions may be made. In their critique of public choice theory, Stretton and Orchard (1994, p. 124) ask: "Why theorize so artificially when political life is accessible to more direct study? From studying the theorists' activity we have come to believe that many of them chiefly want to discredit government, but that for many of them a main purpose is to develop theory of a certain formal kind for its own sake, and to debate and elaborate

[17]Wuyts (1992), but cf. the work of economist Geoffrey Hodgson (2013), who distinguishes "needs" from "demand," which is a function of preferences and the ability to pay (Tankersley 2014, p. 671).

its internal forms as an acceptable academic activity." (For more on collective choice and public choice theory, see Chap. 6).

"Social choice" theory has been another avenue by which mainstream economists address collective choice. This theory, too, disregards the real-world operation of electoral collective choice and its impact on the public economy. As Stretton and Orchard observe (1994, p. 57), "Leading social choice theorists claim to be broadly concerned with the relation between citizens' individual judgments and their collective social decisions, a subject which has occupied political philosophers since Plato." In fact, these theorists have been "narrowly concerned with some logical qualities of sets of individual preferences, and with the impossibility of deriving collective preferences from them by mathematical procedures."

One of the most prominent theorists, Kenneth Arrow, produced an "elegant" formulation that came to be known as "Arrow's Impossibility Theorem," which demonstrated that a mathematics of ideal societal choice was unattainable. "There the business ought to have ended," write Stretton and Orchard (1994). "…[I]nstead an extraordinary thing happened. The search for a consensus machine did effectively cease, but forty years and a thousand books and articles later, scores of economists are still writing variations of Arrow's work." To compound the problem, "The theories which Arrow showed to be impossible, and most of the impossibility theorems themselves, are concerned with attempts to arrive at social policies without considering their effects" (pp. 57–60).

Amartya Sen, the other major contributor to the mathematics of social choice theory, has been truly concerned with the effects of social choices. Still, his work addresses the question of how best collective choice *should* be carried out. He does not investigate the implications of real-world, electorally-manifested collective choice for a public non-market environment.

Few economists have allowed the political process of collective choice to be seen as a legitimate replacement for the market concept of demand. One exception is Richard Musgrave:

> Since the market mechanism fails to reveal consumer preferences in social wants, it may be asked what mechanism there is by which the government can determine the extent to which resources should be released for the satisfaction of such wants…A political process must be substituted for the market mechanism.[18]

Musgrave (1956/57, p. 335) cites Swedish economist, Knut Wicksell, who earlier made the same point (albeit still holding onto the superiority of market-modeled individual choice):

> Wicksell...noted that *a political process of decision* making must be substituted and enforced. Since decision by voting will hardly be unanimous, the result will not be optimal. However, the voting mechanism must be designed so as to approximate a true statement of

[18]The quote is from Michael Albert and Robin Hahnel, "A Quiet Revolution In Welfare Economics", but Maxime Desmarais-Tremblay (2013) provides a more extensive analysis of Musgrave's work.

> preferences, and hence come as close as possible to that solution which would be obtained if the exclusion principle and the forces of the market could be applied.

In the 1990s public administration scholars Stewart Ranson and John Stewart (1989, p. 10) weighed in:

> …choice has to be made from a number of competing claims. There will be arguments about needs, spillovers, rights and obligations. Collective choice is political because *these disagreements and conflicts of interest have to be resolved before social life can proceed*. Collective conflict has to resolve into collective choice. [My emphasis.]

Writing about "shared social responsibility," political sociologist Claus Offe (2010, p. 95) makes a similar point today. He talks about "self-binding acts of pre-commitment: at their origin stands the political, collectively binding *choice*, made in the past by some winning coalition of political forces."

Perhaps a useful way to think about the function of collective choice in economics terms is to see it as societal choice about the combination of outputs on the Production Possibilities Frontier (PPF). Societal choice answers the rhetorical question that economics does not:

> What precise combination of outputs, such as guns and butter, or health care and highways, should society choose to produce? The PPF does *not* answer this question. The [PPF] curve shows the range of efficient possibilities, but does not tell us which one of these combinations of outputs is best… In a society with free speech and democratic discussion, there is wide room for disagreement about what the best mix of goods might be. The PPF provides a mental image for thinking about scarcity, tradeoffs, and efficiency but does not, itself, tell us how to choose among the possibilities it illustrates (Goodwin et al. 2015 Chap. 2, p. 8)

Neither economics nor economists can tell us what combination of outputs a society should choose, but in terms of public goods, a democratic society makes its choices by the representatives its citizens elect.[19]

Does voting "work"? Scholars, activists, political leaders and media critics have wrestled with this question, since voting often appears to disappoint as an effective mechanism for the expression of collective choice. Too many don't vote; elections are bought by those with the most money; those who would like to vote are denied the ballot by technical but discriminatory measures.

But the question at hand is not whether voting works. For better or worse, voting is how, in reality, collective choice is manifested in a democracy.

It is crucial that we better understand the role of voting (real-world collective choice) in producing public goods and services. An understanding of how voting is central to economic collective choice has been impaired, and its centrality obscured, by neoliberals and the political right, which insist on the priority and superiority of individual choice, as taught by mainstream economics. Whether in the guise of public choice economics, Arrow's Impossibility Theorem, the writings of Coase or

[19]Tocqueville in *Democracy in America* p. 59, quoted by Beryl Radin (2012, p. 9) said that in the United States "The nation participates in the making of its laws by the choice of its legislators, and the execution of them by the choice of agents of the executive government…The people reign in the American political world as the Deity does in the universe".

Hayek, or strands of rational choice theory, mainstream economics has exhibited an elemental "hostility to democracy"—and here I am quoting an economic historian, Philip Mirowski.[20]

Although rarely characterized as such, economic attacks on government are really attacks on democracy, and a devaluing of electorally-expressed collective choice. Before we can act as a society to clear the way toward effective voting, we must therefore shape a valid theory of public goods provision in the public economy. Only then will we have an intellectual infrastructure that demonstrates that the public goods economy is not only viable but vital.

Collective Payment

In the market model, individual buyers pay; collective payment is not recognized or accounted for in market "exchange". While mainstream economics discusses taxes at length and speculates about their influence on individual behavior and their "distortion" of market activity, it does not deal with the implications of collective payment, or what might be better called "collective purchase," on non-market production.

Collective purchase is an extraordinarily complex process entailing distinct acts by different groups of agents. In contrast to utility-maximizing individual choice and payment in the market, payment for goods and services in the public non-market originates collectively—through taxes. Purchasers—taxpayers—do not pay the producer directly.[21] This single fact introduces a complexity into public production that does not exist in the market: a third-party agent (legislature, city council, Congress), who actually supplies money to the producer so it can produce. Once payments from individual taxpayers have been aggregated, the pooled financial resources are put to use only after a process of legislative appropriation.

The complexity of collective payment has consequences not found in the market:

- Payers are often unaware of what they have "bought" with their tax payments.
- The size of the producer's budget is determined by elected intermediaries; it does not grow or shrink based on effectiveness or customer satisfaction.

In contrast, the market mechanism for payment (from buyers) and income (to producers) is simple: payment is made directly to the seller/producer: and satisfied buyers are the source of a firm's income. So the size of a firm's budget is a function of payments from buyers.

[20]Mirowski (2015) was pointing principally to microeconomics, but he implied that the charge could also be levied against aspects of macroeconomics.

[21]Any fees that may be paid by users are not, or should not be, intended to cover the costs of production.

> Collective payment means that the size of a public agency's budget is not determined by satisfied clients, users or recipients of services or goods. Rather, payment by the buyer (taxpayers) becomes income to producers (public agencies) only and always at the discretion of elected representatives. Thus, income to the producer is *not* connected to effectiveness: whether recipients/users are satisfied or dissatisfied, or whether the specified public need has been met is, by and large, unconnected to whether the producer receives income. Income to the producer may be terminated even when production has been effective, the public need is being met and the recipients of goods and services are satisfied. Conversely, funding may continue even if the identified need is not being met.

Such dynamics and un-market-like incentives are usually cited as symptoms of the "dysfunction" of government. But it is time to stop squinting at the public sector through a market lens and to see public production as a valid economic process. Only then will it be possible to appreciate that the dynamics of the public non-market are not necessarily dysfunctional but essentially different. It is high time that we arrive at an understanding of how non-market dynamics and incentives operate. At that point, we can establish operational methods of governance that produce desired results.

Flow Relationships and Dynamics: A Conceptual Model

The market is a two-way exchange; the nonmarket is a three-node production flow.

Consider my diagram below comparing the dynamics of market and nonmarket environments. The market is an *exchange*: a producer sells and a buyer buys. But there is no such "exchange" in a non-market production environment. Instead, there is a *flow of actions among agents in a system of production*, in which acts or outcomes are contingent upon prior acts or outcomes, ultimately relying on the polity. Public goods are created through legislation, by legislators whose existence is contingent upon voters. The flow of funding to the producer is contingent upon elected representatives. The source of financing, collective payment (taxes), is contingent on the vagaries of the tax system, politics and the health of the economy. Finally (and problematically), recipients of public goods are often unaware of their source. Making the connection between payment (taxes) and receipt of goods, services and benefits is contingent on making them visible through public messaging (which, for many public goods, is never done) (Fig. 5.2).

Separate Agents for Generation, Creation and Production

In the market model, the producer/seller determines what goods or services to supply, obtains resource inputs and can choose to continue producing a particular

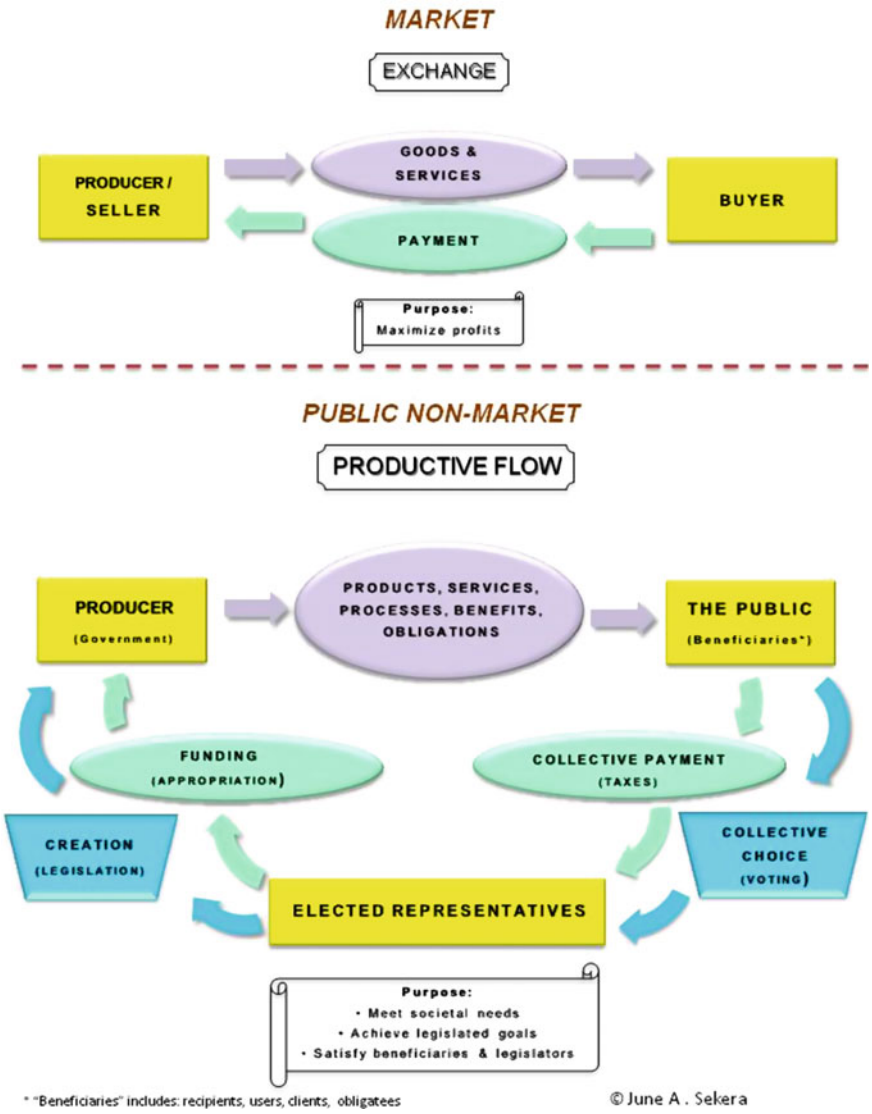

Fig. 5.2 Market versus public non-market dynamics

good or service as long as the price that has been set continues to attract customers willing to pay. The producer or seller (or its investors) can also choose to stop producing if profits are insufficient. In effect, the firm plays the roles of generator, creator and producer of goods or services.

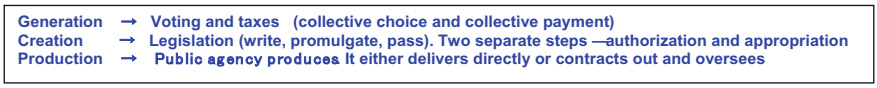

Fig. 5.3 Origins of goods and services in the public non-market

In the public non-market, the *generation*, *creation*, and *production* of goods and services are separate acts by different groups of agents. The roles of the agents are as follows.

Generation—by voters
Goods and services are *generated* through collective choice, i.e., the complex process of collective decision-making (citizen voting) and collective payment. Demand in terms of individual desire, willingness and ability to pay is inoperative.

Creation—by Legislators
In the market, goods and services originate with the same entity that produces them: the firm decides what to produce, how much to produce and how to capitalize production. That's not true for the public non-market, where the entity (the public agency) that produces goods and services does not create them in the sense of either inspiration or capitalization. Legislators. rather than the public agency-producer, determine *what* specific goods or services to produce, and whether to increase or decrease the level of production. Although public goods in essence originate with citizens when they vote for their representatives and are paid for collectively through taxes, it is the elected intermediaries who make day-to-day decisions about how and when collectively-raised monies will be used. They determine what will be created, how much will be produced, and when and whether to initiate, continue or terminate particular goods and services.

The *creation* of goods and services takes place through the process of writing, promulgating and passing legislation. And there are two separate types of legislation that must be passed—authorization and appropriation. Not infrequently, goods and services are "authorized"—through authorizing legislation—but no money is appropriated. So, while authorized, many times they are not, in fact, created.

Production—by public agencies
The public agencies of the "executive" branch are the producers.[22] Public agencies use a variety of inputs—labor, capital, talent, technology—to produce scores of types of outputs (infrastructure, a system of education, a stable currency system, and regulations that protect people and businesses and scores more) (Fig. 5.3).

The dynamics among these agents are intrinsically different from, and far more complex than, market dynamics (as diagrammed in Fig. 5.2).

[22]It doesn't matter, in this context, whether the public agency contracts out. Even if it does, it is still the producer—i.e., it is responsible for what gets produced.

Input Factors—Resources to Deploy

Votes: An Input Resource

According to rational-choice theory–a theory central to mainstream economics–voting is an irrational act. Based on analyses of marginal costs and benefits, the effort (cost) required to vote in elections far exceeds the likelihood that an individual's vote will affect the outcome (benefit). Putting aside the invalidity of this assertion from a psychological/sociological perspective (see, e.g., *Economist* 2012; Barro 2014), textbook characterizations of voting as irrational, repeated for decades, undermine the legitimacy of the public domain. If taken to heart by the general population, such characterizations would threaten the very foundation of democracy.

Unfortunately, this characterization is endemic not only to economics but to some schools of political science as well. Gerry Mackie (2011), one of the few in the field to have thrown a spotlight on this development, has traced the process through which political science was "overtaken" by "the economic theory of democracy." As the field adopted mathematical modeling, some embraced the mathematics of rational-choice economics that showed voting to be "arbitrary and meaningless." Since then, much of political science has been part of a "stampede away from voting" and toward debates about "deliberative" democracy, to such a degree that now "Voting, oddly enough, is one of the least active areas in political theory." In a delicious passage, Mackie finds that "Voting has the same relationship to deliberation in much deliberationist theory as sex has to love in the Victorian marriage: it is necessary, frequent, of profound result, but is suspect and mentioned only in fleeting allusion."

Given the cost-benefit conclusion that voting is irrational, and its outcomes arbitrary and meaningless, Mackie sums up the inevitable conclusion: "democracy should be minimized and the market maximized." And indeed, public choice economics views voting exclusively from the vantage point of market exchange: politicians "buy" votes to stay in office via the positions they take and policies they support.

Certainly, elected officials endorse policies and vote for legislation in ways that gain them political support and additional years in office, but they also (and often) vote with the public interest in mind. Further, whatever the role of selfishness may be in all human affairs, rational-choice assumptions about the electorate or its elected officials shed no light on the ongoing dynamics of how public goods and services are actually produced.

I offer a different proposition: votes are an input resource. In the public non-market, like land, labor or capital, votes are an input to production.

The textbook definition of production is "the conversion of resources into goods and services" (Goodwin et al. 2014, p. 46).

Among the resources used in production is "social capital," defined as: "the institutions and the stock of trust, mutual understanding, shared values, and socially held knowledge that facilitates the social coordination of economic activity."

I submit that votes are a social capital resource. Votes are perhaps the most fundamental and essential resource of the public economy, though rarely if ever recognized as such in economics.

It is important to note that, in the public non-market model, votes are not equivalent to "demand" in the market model. Indeed, there is no "demand" in the public non-market environment, just as there is no "exchange" but rather a productive and contingent flow as shown in Fig. 5.2. Public goods and services originate through collective choice—i.e., voting, in democratic societies—and votes (along with taxes) generate goods and services through the actions of elected representatives. Here is Stiglitz:

> In the public sector, choices are made *collectively*. Collective choices are the choices that a society must make together…Unlike expenditures on conventional private goods, which are determined through the price system, expenditures on public goods are determined through a political process….Individuals vote for elected representatives, these elected representatives in turn vote for a public budget, and the money itself is spent by a variety of administrative agencies.[23]

If individuals and societies engage in managing their resources, and if collective choice (along with collective payment) generates the production of goods and services in the public domain, then votes are an input resource.

Authority to Enforce: An Asset

In the market model, firms have a variety of assets to deploy, including financial and human capital and technology. The public non-market producer has all of these resources and (as Mark Moore writes), an additional unique asset: the legal authority of the state to enforce.[24] In democratic nation-states, this authority derives from collective choice expressed via democratic electoral processes (Ranson and Stewart 1989, p. 20).

The legal authority to enforce enables the state to produce outputs that the market cannot or does not, such as clean air and clean water regulation, food safety

[23]Stiglitz (2000, pp. 15, 156–57). Although Stiglitz gives a rhetorical nod to collective decision-making through the political process, he reverts to standard economics modeling, using the "collective demand curve," to explain what he calls "the demand" for public goods.

[24]The idea that the state has a monopoly on the power to legitimately use force is generally credited to Weber's theory of the state as developed in a lecture, "Politics as a Vocation" (Weber 1919). For a discussion of the implications and impact of the substantial differences between the assets of the private sector and the assets of the state, see Moore (2014).

standards, bank regulation, product safety recalls, contract and property rights enforcement. The deployment of this unique asset[25] results in the production of an obligation, and those covered become "obligatees" (Moore 2014, p. 470), as I discuss below.

Natural Resources and Energy: The Public Role

As I noted in Chap. 4, mainstream economics neglects the biophysical basis of production and slights the significance of energy in particular.

A new public economics cannot make the same mistakes. Taking the lead from Hall and Klitgaard (2012), it must be "a *biophysical* science that reflects the actual conditions in real-world economies." A new public economics must appreciate natural resources, and energy in particular, as a special category of inputs to production, not mere commodities to be purchased and exploited. Further, a public economics must recognize that electorally manifested collective action is the only means through which democratic societies can protect and preserve natural resources and usher in a societally-beneficial transformation to renewable energy sources.

Supply Conditions

Required Rationing

In the market, the financial capital for production comes from savings, from equity or debt investments, or from sales in going concerns. Firms making profits attract investors. Kenneth Arrow (1963) explains, "In competitive theory, the supply of a commodity is governed by the net return from its production compared with the return derivable from the use of the same resource elsewhere." But, as he points out, "There are several significant departures from this theory" in the supply of some "commodities" (e.g., medical care), which don't conform to the market model (p. 952).

Nor does public non-market production. While a firm's ability to attract capital is governed by its return from production, in the non-market the producer's supply of financial capital is circumscribed by the collective payment process. The government producer has little or no control over its supply of capital, and therefore no control over the quantity of a good or service that can be produced. Normally, in the public nonmarket, the need is greater than the resources made available to the producer through legislative appropriations. The result is rationing.

[25]For a discussion of the assets of the private sector vs the state and the impacts and implications of these differences, see Moore (2014).

The public non-market producer cannot increase its capital, and hence its capacity to produce, by obtaining money from satisfied customers. Instead, as a standard matter of practice, it must ration its supply of goods and services. And if funding is cut, the result is closed parks, limited library hours, and the declining capability of the National Weather Service to predict storms or tornadoes.[26]

In theories of government and public administration, rationing, which goes on in the best of times, is a virtually ignored factor of production from the perspective I have just described (Stewart interview 1994), although it is a daily feature of operations in producing many public goods and services.[27,28]

Mainstream economists characterize rationing quite differently. In *The Economics of the Public Sector*, Stiglitz describes rationing as a response to public economy "overconsumption": "Given the inefficiencies arising from overconsumption when no charges are imposed…governments often try to find some way of limiting consumption". This is a doubly distorted reading of the situation: it blames the victim—i.e., those in need of public goods or services (as, for example, a college education); it leads one to think that government agencies have a choice about how much to supply.

What public servants actually face is what John Stewart has called "the management of rationing": how to make services go as far as possible within externally-imposed budget controls.[29]

Products

Goods, Services, Processes, Financial Security, Obligations

The public non-market produces products—or outputs—that the market does not. And those that are particular to the public non-market are arguably more complex (Fig. 5.4).

With the exception of obligations and processes, these categories are fairly self-explanatory.

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[26]Concerning the consequences of cutting the budget of the National Weather Service, see Doswell and Brooks (1998), Sirota (2013), Miles (2014) and Anyone regret slashing National Weather Service budget now?; *Salon*; Tuesday, May 21, 2013.

[27]An operational definition is needed for the term "rationing" in the context of the public non-market environment. Cf. Ubel and Goold (1998).

[28]In the public non-market, it may well be that need always exceeds supply, so that no equilibrium can be reached. If so, the theory of equilibrium may be another conventional market construct that is inapplicable to the environment of non-market production.

[29]A useful discussion of the dilemmas of rationing, and sometimes tragic choices, faced by public sector producers can be found in an article on health care rationing by Ubel and Goold (1998).

Market	Public Non-Market	
Category	Category	A few examples of public non-market products
Goods	Goods	street lighting; sidewalks; roads; nautical navigation markers; clean water; parks; playgrounds; currency; bridges, dams, canals, dikes, airports, shipping ports.
Services	Services	food safety inspection; 911 call service; mail delivery; weather forecasting; natural disaster prediction; disaster response/relief; education; bank deposit insurance; job training programs, patent system; enterprise and socioeconomic data collection and dissemination; innovation through basic R&D investments.
	Processes	legal / judicial system; copyright enforcement; infrastructure maintenance and repair.
	Financial security	unemployment insurance; old age, survivors and disability insurance; pensions insurance.
	Obligations	drug safety regulation; product safety standards; water quality standards; emissions regulations; banking regulation; food nutritional labeling.

Fig. 5.4 Products of the market versus the public non-market

Obligations

Obligations arise from a resource unique to the state: the legal authority to enforce.[30] As with other public goods and services, producing these obligations entails collective choice, legislation, appropriation and administration.

There has been an astonishingly successful movement to force all who work in the public sector to use the word "customer" when referring to those who are, in truth, recipients, users, or beneficiaries. This market rhetoric, which has writhed across the public domain, cripples as it distorts, for the public economy is not a market; no one receiving or using public goods or services is a directly-paying, utility-maximizing buyer; and, most critically, much of what the public domain produces is obligations. It is absurd to claim that such obligatees as auto companies facing product recalls, corporations fined for emitting toxins, banks charged with consumer fraud, or criminals facing prosecution are "customers." Making public sector activities into a world of "customer" relations demotes or dismisses the role of government as an enforcer of societal values embodied in law. Which perhaps is not unintentional.

Processes

From the chart above, I choose to focus on infrastructure as a process. A similar argument can be made for the legal/judicial system.

In his essay, "When Infrastructures Fail," Stephen Graham (2009, pp. 9–10) makes a persuasive case that infrastructure networks are not so much products as processes:

> …infrastructure networks, despite their occasional veneer of permanence, stability, and ubiquity, are never structures that are given in the order of things. Instead of being static

[30]For more on the concept of obligations as a "product" of government, see Moore (2014).

> material or technical artifacts to be relied on without much thought, infrastructure networks are, in effect, *processes* that have to be worked toward. The dynamic achievement of a functioning energy, communications, water, or transport network requires constant effort to maintain the functioning system.

Infrastructure, writes Graham, is a "precarious achievement." Maintaining infrastructural services is a "constant process" calling into being a "vast and hidden economy of repair and maintenance [that] is continually at work to allow infrastructural circuits to actually work."

> Constituting at least 10 percent of most urban economies, this economy of repair and improvisation is almost invisible within the debates of urban studies. The sheer amount of economic activity generated by repair and maintenance is notable, even though it is almost completely ignored in accounts of the economies of contemporary cities. In the United States, for example, there were fully 5.82 million people engaged in installation, maintenance and repair (IMR) occupations in 2000 with a then-expected growth rate of 11.4 percent. These jobs constituted 4 percent of all jobs in the United States, making the sector one of the six most important service industry occupational groups.[31]

The invisibility of infrastructure, particularly when it is working properly—the paradox of invisibility—is emblematic of many other public goods and services.

Public Goods

The terms public good, public goods and public interest are often used interchangeably, without definition and without clarity. It is time that we pause over these terms and distinguish their meanings. In particular, in economics it is important to focus on the concept of public goods, and, I would argue, re-think the definition.

Mainstream economic theory, using the sixty-year-old formulation of Paul Samuelson, holds that public goods arise out of, and represent, "market failure." In the market-centric world of mainstream economics, public goods are pronounced "a problem" because, being "non-rivalrous" and "non-excludable,"[32] they are not amenable to market production.

The definition of public goods is little discussed by pluralist or heterodox economists. Instead, attending to the topic are those on the right who challenge the definition as too supportive of a role for government. Libertarian essays and websites question whether public goods actually exist—or argue that if they do exist, they can and should be provided by the market, not government. This literature supports the increasing marketization and privatization of government.

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[31]Graham does not specify how much of this is public infrastructure. From the context it appears that it may be the majority.

[32]In mainstream economics a good is nonexcludable if the supplier cannot prevent consumption by people who do not pay for it and non-rival if more than one person can consume the good at the same time (Krugman and Wells 2009).

Cornes and Sandler (1994) nicely captured the situation when they asked "Are Public Goods Myths?" So far as they could tell, "Samuelson's austere simplification produced a rarefied concept, a mythical beast, without any counterpart in, and therefore without any applicability to, the real world" (p. 369). Because the Samuelson definition is so narrow and constricting, one can indeed demonstrate that the standard textbook examples of Samuelson public goods have been or may be produced by the private market: shipowners have paid for lighthouse services; monarchs have hired mercenary armies; Disneyworld produces fireworks. Even clean air is being purchased individually–by the wealthy in Beijing.[33]

In "Rethinking the Definition of 'Public Goods'" (Sekera 2014), I briefly review the historical development of the economics definition of public goods and suggest a path to re-conceptualization.

Expenditure Without Spending

In the market model, the source of financial capital for production is money in the form of cash, debt or equity investments. Simply put, the firm has or gets money and spends it to produce goods or services. However, in the public non-market, outputs can be produced and goal achievement accomplished through "tax expenditures" (tax credits, exclusions and other legislated forms of tax exemption financing) wherein the producer—a government agency—makes no outlay of money.

Tax expenditures are rarely thought of as a financing source for production of goods and services. But, as noted by Marr et al. (2013) of the Center for Budget and Policy Priorities (CBPP), "The distinction between tax breaks and spending is often artificial and without economic basis." The Joint Committee on Taxation (2014, p. 2) explains that "Special income tax provisions are referred to as tax expenditures because they may be analogous to direct outlay programs and may be considered alternative means of accomplishing similar budget policy objectives." Wikipedia (2015) is most blunt: "A tax expenditure program is government spending through the tax code."

Tax expenditures have been used to finance a large array of public products or benefits, including education, health care, business expansion, and home ownership. Marr et al. (2013) revealed that in 2011 tax expenditures ($1.072 trillion) cost more annually than either Social Security ($725 billion) or Medicare ($755 billion).

In his 1988 public economics textbook[34] Stiglitz noted that "We call these implicit grants tax expenditures. The federal government is required to make estimates of the tax revenue losses associated with each tax expenditure. In recent years they have become very large." Tax expenditures are enormous; for some public sectors they dwarf direct expenditures. The following chart is from Stiglitz (Fig. 5.5).

[33]In China in response to extreme air pollution, some schools have built domes over sports fields and wealthy parents choose schools based on air-filtration systems: Wong (2013).

[34]I did not find similar information in Stiglitz (2000). This chart is from the 2nd edition, Stiglitz (1988, p. 30).

Budget function	*Direct Federal outlays*	*Revenue loss estimates for Tax Expenditures*	*Tax Expenditures as a % of Direct Outlays*
Commerce	2.6	140.4	5,400%
Housing credit	1.9	44.3	2,300%
Health	106.1	31.4	30%
Income security	318.6	95.3	30%
General purpose fiscal assistance to state and local government	6.4	35.5	550%
Education, training, employment & social services	30.6	28.7	94%

Fig. 5.5 Federal tax expenditures: the major recipients, 1986 (in billions of dollars)

The House and Senate Joint Committee on Taxation report of August 5, 2014 lists 222 tax expenditure programs. For two comparable categories, the 2014 projected *revenue losses due to tax expenditures*—i.e., the costs to the federal government of these tax expenditure programs—are nearly triple what they were in 1988:

- Housing: $130.9 billion (as compared to $44.3 billion in 1988)
- General purpose fiscal assistance to state and local government: $92.6 billion (as compared to $35.5 billion in 1988).

Few taxpayers appreciate how well hidden are such expenditures, and how deceptive. As Stiglitz (1988, p. 30) commented, "Many government subsidies show up in neither the statistics on government expenditures nor those on tax expenditures." And a paper by the Congressional Research Service (Labonte 2010) explains that

> Because tax provisions are permanent (unless they include an expiration date), however, revenue loss from specific expenditures may rise over time automatically without congressional action, unlike appropriated spending. If this equivalence argument is correct, measures of the size of government that omit tax expenditures drastically underestimate its size.

As for deception, the Tax Policy Center[35] notes that tax expenditures "give the appearance of reducing government's size… In fact, however, tax expenditures can actually expand government's interference (sic) in the economy, partly because they induce changes in taxpayers' behavior. *Also*, *like direct spending*, *tax*

[35] http://www.taxpolicycenter.org/briefing-book/background/expenditures/controversial.cfm.

expenditures must also be paid for through higher taxes elsewhere." [Emphasis added].

In their study, "Government Spending Under Cover," Batchelder and Toder (2010) argue that tax expenditures should be called "IRS-administered spending programs." And they point out that "No one asks what goal a spending program dressed up as 'a middle-class tax cut' serves because it seems self-evidently good to give people tax cuts."

Another little-noted feature of tax expenditure programs is their tax impact when reduced or cancelled. Reducing or eliminating direct expenditure programs equates to a tax cut; eliminating tax expenditure programs equates to a tax increase. Annie Lowrey (2013) has shown how important this is for the public budget and public perception. Senator Patty Murray, observing that "We don't often think of tax expenditures as a form of spending," shepherded a budget proposal to raise nearly $1 trillion over 10 years by cutting tax expenditures, with the aim of using the new revenue to reduce the deficit. The attempt failed. Rep. Paul Ryan insisted that any money generated from curbing tax expenditures must be offset with lower tax rates and Sen. Jeff Sessions charged that "Eliminating tax exemptions is a tax increase. You can't spin it any other way."

The Absence of Buyers

In Chap. 4 I described the absence of buyers in the public nonmarket. Instead, there is a "purchasing agent", which is an organization (department, bureau) within the government. The prior discussion is summarized in this chart (Fig. 5.6).

	Market	**Public non-market**
Who purchases?	Buyer	Purchasing Agent
Why?	Self-interest	Meet a public need
With what?	Own money	Taxpayer money
Beneficiary	Self	People, businesses, organizations, communities, the nation, the environment, the planet.

Fig. 5.6 Payment: market versus non-market

Non-market Efficiency

So far as I can tell, we have no operational definition of efficiency appropriate to a non-market environment, particularly the public economy. We rely mistakenly (Reinhardt 2010) on market criteria of efficiency (and "Pareto efficiency").

I do find smatterings of recognition that the non-market environment complicates the notion of efficiency. A European Central Bank paper on public sector efficiency notes that "The concept of efficiency finds a prominent place in the study of the spending and taxing activities of governments." However, "The adequate measurement of public sector efficiency is a difficult empirical issue and the literature on it…is rather scarce. The measurement of the costs of public activities, the identification of goals and the assessment of efficiency via appropriate cost and outcome measures of public policies are very thorny issues" (Afonso et al. 2006, pp. 7, 8).

And a European Commission paper on measuring efficiency in the public sector (Mandl et al. 2008) notes that "Problems arise because public spending has multiple objectives and because public sector outputs are often not sold on the market which implies that price data is not available and that the output cannot be quantified (p. 2)."

A few other groups and individuals have argued that collective production and payment can be more efficient than market exchange and competition. But these too generally have retained market criteria for public production, despite the fact that, as the Oxford economist Avner Offer (2012, p. 2) points out:

> It has never been proven that markets always provide the most efficient economic outcomes; it is not even easy to determine what such efficiency would consist of. People often make choices which are not intended to maximise their economic advantage…Those who buy and sell for their own advantage, have no incentive to seek overall efficiency, and efficiency does not just happen by itself.

A major challenge in developing a theory of the public economy is to determine how to define and measure efficiency in a non-market environment.

Invisibility as a Hallmark of Effectiveness

The challenge of assessing effectiveness in the public non-market economy is formidable for many reasons, but I want to draw attention to two that usually go unrecognized: invisibility and opacity.

As I have already noted, public goods and services are created to meet the unmet needs of a society or to solve complex social or economic problems. When the needs are met or problems solved, they "vanish"; public goods, services and

processes become invisible when successfully produced and provided. Where not invisible, they may be opaque: that is, taxpayers cannot easily or directly see what they have paid for.

Paradoxically, as Stephen Graham (2009) most graphically describes, many public goods and services are generally noticed only when they cease to be available, when they break down, or when an entire system fails for want of financing or manpower (as I summarized earlier). "When anthropologists or sociologists define the term *infrastructure*, the ways in which it sometimes attains cultural invisibility over time is one of the key criteria that they settle on." (p. 7)

The result is an "absence of presence" of public goods—what taxes pay for—in the minds of a mostly oblivious U.S. population. Earlier I summarized research by Suzanne Mettler (2010) at Cornell which showed that although virtually all Americans have participated in government programs, most deny it. As Mettler writes, the state's role—and thus the existence of public goods—has been intentionally submerged and shrouded, "making it largely invisible to ordinary citizens."

Also invisible is protection of the commons. In *Silent Theft*, (2002), David Bollier talks about how the commons—those natural goods and public assets that it is government's job to protect—are in our midst but unseen. He argues that we ignore the commons at our peril. "Why does the commons live in the shadows, virtually ignored?" Answering his own question, he says: "It is not easy to connect the dots among these complicated, seemingly unrelated events and recognize the larger pattern of enclosure…Learning to see and understand the dozens of commons in our very midst is one of the preeminent challenges of our times" (pp. 5, 6, 15).

Perhaps the most confounding type of invisibility in the public economy is the "product" of harm prevention: the disasters, illnesses or accidents that don't happen (because government has done its job). How can we gauge the effectiveness or efficiency of public agencies—producers—that daily and continually protect people, communities, and businesses from damage and harm?

Non-rival Supply

The economist Dean Baker has observed (2014) that "there is a real cost of using selfishness as a fundamental political principle." In effect, he was complementing what Will Davies (2014a, b) had written about the dangers of accepting "competitiveness" as a guiding societal value, and what Alfie Kohn (1986) wrote decades earlier in *No Contest: The Case Against Competition*.

Instead of the "competition prescription," a theory of the public non-market must recognize that a fundamental aspect of public supply is that it is non-rival. In public, non-rival supply:

- Producers strive to supply their goods or service to as many recipients or beneficiaries as appropriated funding will allow and as cost-effectively as possible;
- Producers share information and innovation freely with other producers in order to make the whole system more effective and efficient (rather than withholding "competitive, trade secrets" as in the market and, increasingly, in marketized government);
- There is a concern for citizens' welfare—rather than "buyer beware"—an environment of trust[36];
- The role of the federal government is to assist state and local governments, not to compete with them or put them out of business as competitors [in contrast to the now-popular idea of the "competitive state," which "concentrates political capital behind the *most competitive* cities, clusters and regions" and abandons "uncompetitive" places and populations—Davies (2014a, p. 146)].

The concept of non-rivalry in supplying public goods and services does not mean that there is no dissension, disputation or debate. Quite the opposite. But the disputation is built into the *generation* of public goods, up front, during the process of collective choice, not during the process of supply. To reprise Stewart and Ranson (1989) on this point:

> …choice has to be made from a number of competing claims. There will be arguments about needs, spillovers, rights and obligations. Collective choice is political because these disagreements and conflicts of interest have to be resolved before social life can proceed. Collective conflict has to resolve into collective choice…The essential task of the public domain [is] enabling authoritative public choice about collective activity and purpose. In short, it is about clarifying, constituting and achieving public purpose (p. 10).

The collective choice process, through representative democratic government, resolves precisely *what* goods, services, benefits and obligations will be produced by public agencies. Once resolved in the form of signed legislation, public agencies must produce them, but they do so in a non-market, non-rival[37] environment, unless market principles are imposed and such marketization induces rivalry.

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[36]Kenneth J. Arrow (1963) makes this point with regard to non-market medical care. A doctor's "behavior is supposed to be governed by a concern for the customer's welfare which would not be expected of a salesman."

[37]Those familiar with the textbook definition of public goods will recognize the term "non-rival" as an ascribed attribute. However, I use the term "non-rival" differently—as an attribute of the *process* of production, not of the goods produced.

Uncommon Complexity of Judging Results

We lack a framework for evaluating outcomes in the uniquely complex environment of public non-market production with its distinctive set of driving forces and dynamic flow relationships as well as its multiple constituencies. Performance measurement systems transplanted from business or designed by market advocates don't translate to the non-market. Such systems frequently backfire with unintended consequences. Federal performance measurement systems have been implemented without any grounding in a theory or concept of non-market production and have often been imposed for ideological, pro- and faux-market reasons. Simply put, the US has no appropriate performance measurement or performance management system.[38]

We do need and must have, in the public sector, a way to know if we're doing the right thing and doing the thing right. Lacking an apt method for measuring results, one that recognizes and comprehends the public non-market, we will continue to see failures.

What Must Be Addressed in Constructing a Means for Assessing Non-market Results

I turn now to specifics in order to arrive at a rational and useful approach for measurement of results in a public non-market. I take up in turn each of the unique features of non-market production that I have previously discussed.

Multiple constituencies

In the market, there is only one constituency to satisfy: customers.[39]

But in the public non-market, there are multiple constituencies to satisfy: (1) the recipients of the goods or services; (2) the elected representatives who appropriate the funding; and (3) the public (voters and tax payers). Additionally, the legislated purpose must be met. And beyond immediate outcomes, long-term impacts (intended positive externalities) should ideally be measured (Fig. 5.7).

[38]There is a small but substantial and growing literature on this deficiency. Numbers of individual agencies and programs have constructed effective performance measurement and management systems, and some are statewide. But these operate despite the imposition of ineffective or counterproductive federal performance measurement systems.

[39]Of course, investors must be satisfied with their return on investment, but that is a completely different point than the reality that buyers must be satisfied with the products or services that are produced, or revenues will cease.

MEASURES OF SUCCESS	
Market	**Public Non-Market**
Profit. (Of course there are investors and ROI, but if the business can't satisfy customers and sell its products , it ultimately ceases to exist.)	1. **Whether the specified public need was met.** (i.e. the specific purpose for which the good, service, obligation or process was legislatively created) including: a. **Short term outcomes; and** b. **Short & long-term positive externalities.** 2. **Satisfaction of recipients/beneficiaries.** 3. **Satisfaction of elected representatives.** 4. **Satisfaction of the public (voters/taxpayers).**

Fig. 5.7 Measures of success

The challenge is to find an *effective* way to measure whether the identified need has been met and the other criteria have been satisfied.

Connection to purpose

Since public goods, services and other products are created legislatively to meet identified public needs, the most elemental assessment determines the extent to which that need has been met. This is not straightforward. Exactly how do you measure the achievement of public purpose?

In the United States today, the purposes of public products are often ill-defined in their authorizing legislation. Moreover, a single piece of legislation or a single public agency may have multiple missions, sometimes conflicting (Radin 2012). That complexity of mission must not be dodged but addressed head-on in any attempt to devise a cogent approach to the measurement of results.

Satisfaction

In the past several decades, one of the principal thrusts of performance measurement systems, having been designed with the market as a model, has been to measure "customer satisfaction." While it is inarguably important to do a good job for clients of public services and users of public goods, the marketized approach is inappropriate for several reasons. Chief among these is that "many government activities do not involve the supply of services or benefits. When the government acts to protect citizens from criminals, to clean the air and water, and to protect those who are vulnerable in market transactions, it often acts not by providing benefits to particular individuals but by imposing burdens on those who threaten those individuals" (Moore 2014, p. 469). What is the logic of measuring the "satisfaction" of those on whom the "burdens" have been imposed? And how does one measure the impact of government obligations?

Dealing with invisibility

With regard to results measurement, the paradox of invisibility of public goods raises two types of questions: How do you measure what *is not* seen? How do you measure what *cannot be* seen?

In the first case—what *is not* seen—I am referring to such things as the absence of crime, the absence of toxins in food, water, and air. These public products can in fact be measured if standards have been set and published—standards of purity of water, for example—or by tracking the number of robberies, or illnesses or fatalities

caused by tainted food. The problem in this case is making the public aware of what government has accomplished and driving home the direct connection between such desirable accomplishments and the payment of taxes. *Measuring* is not so much the problem; *messaging* is.

The case of what *cannot be* seen, of harm that does not happen, is much more difficult. Yet, a large part of government's mission is to protect and preserve, i.e., prevent harm from happening. The conundrum: how to measure disasters that did not happen, the absence of fatalities from food poisoning, bodies that have not been maimed by unsafe tools, illnesses that were not contracted…

Perhaps it is possible to re-think the concept of counter-factual impact evaluation. And, here again, is the issue of *messaging* government's accomplishments in having prevented harms.

Measurement of expenditures with no spending

Performance measurement has not been rigorously applied to tax expenditure programs. For example, Good Jobs First, an organization that tracks the impacts of "economic development" tax credits has spent years publicizing the "job creation", and actually the lack thereof, resulting from tax credits that are given to businesses. Though job-generation promises are rarely met in these programs (Story 2012), few legislators have heeded the findings.[40] In the "measure mania" that has been sweeping the nation as part of the government reform movement, it is hard to find attention being paid to the failure to measure outcomes of tax expenditure programs. Since 1994 GAO has been urging Congress to require that tax expenditure programs be subject to performance evaluation, without success.

Measure positive externalities

An unstated but prime intent of many public goods and services is to create positive externalities. Basic education is a fine example. Once a private service, it became public when voters decided—through their elected representatives—that every person should have free access to education, regardless of ability to pay. Though the immediate goal was literacy for all, there were other results too. As David Moss of the Harvard Business School has pointed out (2012, p. 42), the U.S. free public education system established in the 19th century, "financed by taxes rather than private tuition," represented "the virtual socialization of an industry. It was enormously controversial. Ultimately, though, the rise of public education constituted a powerful competitive advantage because it moved the United States far ahead of most other countries in terms of education and human capital development."

Public education is meant to do more than enable students to acquire literacy skills, get a job, or even to advance national competitiveness. It enables critical thinking and equips citizens to be informed participants in democracy. Similarly, clean air and clean water regulation, workforce training and public parks are meant to contribute to the overall and long-term well being of people, communities and

[40]In a partial victory, and as a result of the work by Good Jobs First, state and local governments that provide economic development tax credits will now have to publicly account for the losses. http://www.goodjobsfirst.org/gasb.

the planet, i.e., to create "positive externalities." Burton Weisbrod (1964), one of the few economists who have recognized the need to evaluate the creation of long-term externalities, published a report on the *External Benefits of Education* over fifty years ago. Yet no performance measurement schemes practiced in the U.S. today[41] consider long-term externality creation.

Advocating "sustainable economic development," Jeffrey Sachs (2013) tells us to "think long-term" about public investments, citing government accomplishments such as the federal highway system, the development of computers, the Internet and other technologies, and space exploration. If each of the programs that generated these accomplishments had been subjected to the type of market-myopic performance measurement system imposed on K-12 education over the last decade, would we have seen such long-term public investment? Without being able to see and measure the long-term positive externalities that have accrued to our society, would these programs have been sustained? Not likely. Economists such as Weisbrod should be enlisted to help develop ways to measure positive externalities, not theoretically, but in actual effect.

Conclusion

A theory of the public nonmarket economy, and a model of its production dynamics, must take into consideration all of the aspects discussed above. It must offer a clear, comprehensive explanation of the three-node flow of the public economy environment and recognize the contingent nature of each of the functions. It must—in any democratic nation—acknowledge that public products originate with the polity and that accountability is at the ballot box.

A theory of the public nonmarket economy must also relate to, and lay a clear and cogent foundation for, the practice of public administration. If our societies continue to have nation-states, we need to work out a better way to run them. Listen to Dwight Waldo (Lowery 2001), who was a leading 20th century scholar of American public administration:

> What we shall be able to achieve in the enterprise we call civilization is going to depend on increased understanding of formal organizations and, through increased understanding, increasing mastery.

[41]Note that in this section I am discussing the ongoing, growing and increasingly routine practice of "performance measurement" throughout government. This type of post-production measurement within and by government agencies themselves, but imposed from the outside, is different from third-party evaluations, which sometimes do attempt to predict or measure externalities, albeit usually not long-term ones.