

**Public Value Failure: “When Efficient Markets May Not Do”**

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## Abstract

The familiar market failure model remains quite useful for issues of price efficiency and traditional utilitarianism, but has many shortcomings as an aid to understanding the public value aspects of public policy and management. In developing a *public value failure* model, I present diagnostic criteria for values problems not easily addressed by market failure models. Public value failure occurs when: (1) mechanisms for values articulation and aggregation have broken down; (2) “imperfect monopolies” occur; (3) benefit hoarding occurs (i.e. public domain benefits and public goods have been captured by groups, limiting distribution to the population); (4) there is a scarcity of providers of public value; (5) a short time horizon threatens public value; (6) there is a focus on substitutability of assets that threatens conservation of public resources; (7) social and market transactions threaten fundamental human subsistence. After providing examples of public failure diagnostics, including an extended example concerning the market for human organs, I introduce a “public failure grid” to help interpret policy issues according to public failure criteria. The basic point of the grid is a simple one: market failure-success and public failure-success are independent dimensions and, thus, market failure criteria are rarely sufficient for public policy decision-making. Considering the joint criteria holds promise of improved policy outcomes by addressing both economic efficiency and public value.

## **Public Value Failure: “When Efficient Markets May Not Do”<sup>1</sup>**

*“If markets be ends as well as means, their nonefficiency is hardly sufficient ground for rejection. On the other hand, **efficient markets may not do**, efficiency of the ‘invisible hand’ does not preclude preference for other efficient modes of organization, if there be any.” (Bator, 1958: 378-79)*

### **Introduction**

Throughout the world, in nations at all levels of political and economic development, policy-makers seek to determine whether particular bundles of goods and services are best provided by government, the private sector, public-private partnerships, or some set of hybrid institutions?<sup>2</sup> Under what arrangements is the public best served? What is the public value of resources, goods and services?

Increasingly, questions about allocation of goods and services receive market answers. Among the more prominent market approaches: (1) sale of public assets to private parties; (2) privatization and contracting out (Donahue 1991; Savas 2000); (3) quasi-market policies based on vouchers or saleable credits (Hausker 1992); (4) tax credits (Bucy 1985); (5) creation of hybrid organizations, part public and part private (Emmert and Crow 1988); and (6) contractor management of public agencies (Crow and Bozeman 1999). When market efficiency is not being used as a rationale for delivery of goods and services, it is being employed to exhort not-yet-reinvented public agencies to be more business-like, entrepreneurial or market savvy (Osborne and Plastrick 1997). As a result of changes in traditional assumptions about providers of goods and services, the institutional meaning of “publicness” is becoming more and more ambiguous (Frederickson 1991; Bozeman, 1987; Antonsen and Beck-Jørgensen 1997; Rainey 1997).

Why is public value so often marginalized as nonmarket, market intervention, or market failure? One reason is that decisions about public vs. market allocation of goods and services are not made on an even playing field. Arguments about public values or public interest often find themselves at a considerable disadvantage, a disadvantage accruing not from the veracity of argument but from the difficulty in framing the argument (Kuttner 1997).

We have at our disposal several excellent conceptual tools for analyzing economic authority aspects of public policy (Wolf, 1988), especially economic efficiency, but limited tools for analyzing public value and the execution of political authority (Wamsley and Wolf, 1996). A longstanding means of supplementing economic analyses of public issues has been appeal to the public interest. Often, theories of the public interest provide useful insights and focus on crucial public value issues. But economic and public interest rationales do not operate at commensurate levels of theory and application. Whereas economic analysis is backed with the diagnostic tools of market failure theory, the arguments of public interest typically operate above the fray, rarely having sufficient presence in the bloody battleground of day-to-day policy deliberation.

My goal is to develop a model in many respects analogous to market failure, but one that eschews concerns with price efficiency and traditional utilitarianism in favor of a public value focus. I present a *public value failure model* (hereafter "public failure model") that, like market failure, includes criteria for diagnosing public failure (and identifying public successes). The key question I ask is not so different from the question asked years ago by one of the inventors of the market failure paradigm, Francis Bator

(1958): If we assume that economics provides a powerful, well-articulated, and often useful approach to analyzing allocation of goods and service among sectors, are there respects in which it “may not do?”

Despite progress in policy analysis method and technique, the absence of a conceptual framework akin to market failure remains an important shortcoming. Public value theory tends to be at the highest levels, such as philosophical treatises about the public interest, or at the operational level, focusing on specific desired program outcomes. In this paper, I seek a "middle range conceptualization" of public value, one pertaining to a wide range of policy and public value domains, but, at the same time, one anchored by diagnostic criteria. Before developing a public failure model, I first consider the prevailing market failure alternative.

### **The ascendance of market failure in public policy deliberation**

Among the many theories and frameworks economists have developed for analysis of public policy and social choice, the "market failure" model has been particularly influential among policy-makers and increasingly, private citizens. The market failure model, pioneered by Bator (1958) and Samuelson (1954) centers on questions of externalities or spillover effects and, more generally, the ability to set efficient prices for goods and services.

Since ideas about market failure criteria and economics-based concepts for allocation decisions are quite familiar, a brief description should suffice.<sup>3</sup> Donahue (1991, 18) provides a succinct description: market failure occurs when "prices lie- that is, when the prices of goods and services give false signals about their real value, confounding the communication between consumers and producers."

Most economists agree on the broadest causes of market failure. One of these is externalities, though not all types of externalities (e.g. Bator 1958, 363-370). Externalities occur when goods are “nonrival,” when one person’s consumption of the good does not mitigate its availability to others. Market failure also occurs owing to steep transaction costs, information deficits and monopolies and other such competitive failures.

Perhaps the greatest appeal of the market failure model, unlike so much of neoclassical economics, is that the lay public understands it. It has one core assumption—that the private sector is the best problem solver except in instances where market competition is flawed and prices are distorted. In the words of one introductory economics text (Marlow 1995, 61),

Under ideal conditions related to competition, information and the absence of externalities, private competitive markets allocate resources efficiently. For government to play a legitimate role, then, either ideal conditions must not be present or *efficiency must not be the most important criterion for directing resource allocation* [emphasis mine].

A great benefit of the market failure model is that it provides an easily applied (at least in concept) set of criteria for making collective decisions. As policy-makers and the general public seek easily understood, easily communicated but nonetheless plausible guidelines for decision-making, the market failure model has much allure.

### **Responses to market failure**

What most economic approaches to public value have in common is that they are less a reflection of public value than the private value of things public. This is perhaps

why, when applied in a public value setting, the language of economics often grates. For some issues, economics parlance feels wrong. Most non-economists (and not a few economists) squirm when children are described as “commodities presumed to have modest price elasticities because they do not have close substitutes” (Becker 1974, 300-301). Similarly, many have a visceral reaction to the definition of government as that entity called upon to provide “a good possessing jointness□also characterized by nonexclusion” (Davis and Hulett 1977, 36).

Many concerned with public value find economics approaches inappropriate to the most fundamental questions of governance (see especially Stone 1997). Philosopher Peter Brown (1992; 1994) is among those who have contributed to our understanding of the limitations of market failure as a guide to public value. More recently, Zerbe and McCurdy (1999) provided a trenchant critique, concluding that transactions cost approaches hold much more promise for public policy analysis.

Anticipating contemporary social capital arguments (e.g. Putnam 2000; Skocpol and Fiorina 1999), Lane (1991) argued that efficient markets often have very little to do with development or human happiness and, thus, market frameworks are inadequate to the task of social allocation of goods and services. Thus, Kirlin (1996, 170) complains, “economists sometimes adopt a view of the functions of government to fit their tools of analysis.” In support of their chosen approach they distort the history of government, making it subordinate to economics when it clearly is not.” He goes on to argue that government *creates* value, value not easily understood within a market framework. Interestingly, some economists agree with Kirlin. Wittman (1995) argues that democratic political institutions create value, often quite efficiently, as they reduce transactions costs

and encourage efficient exchange of political rights. Some public management scholars argue that public managers themselves create public value (e.g. Moore 1995; Van Wart 1998).

Economists are among the most convincing critics of the role of microeconomic theory in public value. Professional economists are well acquainted with limitations raised by Arrow's Impossibility Theorem (alleging the impossibility of an adequate social choice framework).<sup>4</sup> Similarly, economists employing Pareto efficiency (the conventional utilitarian calculus) in social choice generally understand its irrelevance to the distributional issues so often at the heart of public value questions. Some time ago, economists began to agree on the validity of the "theorem of the second best" (Lipsey and Lancaster 1956-1957), which suggests the hazards of applying competitive market reasoning when there are significant competition barriers. Richard Nelson (1987) presented compelling arguments that the pervasiveness of market failures inhibits the usefulness of the model as a set of practical criteria.

Economists have made major contributions to overcoming the strictures of traditional microeconomic theories of value (Bergsen, 1938; Samuelson, 1947; Arrow, et al. 1997; Arrow, 1987). In particular, social choice theory (Sen 1979; 1995; Suzumura 1997) aims to "provide a general approach to the evaluation of, and choice over, alternative social policies(.)" (Sen 1999, 349). The problem, then, is not unawareness of the limitations of market failure, but a lack of suitable alternatives for facilitating dialog about public values (White 1994).

### **Policy analysis and public value**

The rise of professional policy analysis has in many ways contributed to the ascendance of the market failure model and the pervasiveness of microeconomics in public policy. While the notion of formal policy analysis (or “policy science”) began immediately after World War II (e.g. Lerner and Lasswell 1951), it began to take its place in everyday work as political science-oriented approaches (e.g. Dror 1971; Wildavsky 1979) began to yield to more tool-oriented economics-based approaches (e.g. Weimer and Vining 1992; Stokey and Zeckhauser 1978).

Ironically, professional policy analysis, motivated in part as a means to serve democratic values (deLeon 1995), seems to in some instances to have supplanted them. Generally, this has not occurred intentionally but simply because policy analysis more easily speaks the language of economics than the language of public interest, public value, or, for that matter, politics. Policy-analysis-in-use typically involves the translation of decision alternatives into benefits, costs, discount rates and transitive economic values, none of which easily accommodates “public value.”

If policy analysis has in some respects contributed to the commodification of public value it has, in recent years, provide a variety of post-positivist alternatives to pure rationality decision-making. Many contemporary analysts strive to ensure that a wider array of values, especially democratic participation values (deLeon 1995; Dryzek 1989; Dryzek and Torgeson 1993; Peters 1996) are taken into account in social action and decision-making. During the 1980’s, many scholars and practitioners began serious questioning of the rationalist premises of policy analysis (Dunn 1986; Cook 1985; Fischer 1980; Hawkesworth 1988; Majone 1989). Much of this criticism was informed by studies of the ways in which real decision-makers (as opposed to some idealized

rational actor) use information to make policy decisions (Weiss and Buchavalas 1980; Bozeman and Landsbergen 1989; Greenberg and Mandell 1991; Albaek 1995). This reformation has continued unabated (deLeon 1998; Fischer 1998; Danziger 1995) and contributed to the rise of new post-positivist and interpretive techniques and methods for policy analysis (e.g. Durning 1999; Patton 1997; Schon and Rein 1994; Lin 1998).

While developments in contemporary policy analysis are quite useful in showing alternatives to a market failure paradigm, they are not a major focus of this paper. My concern is not with policy analysis techniques and method but with normative policy theory. In many respects, policy analysis method outstrips public value and policy theory. Public value theory has, historically, resided in concepts of the public interest not in the methods of policy analysis.

### **Public interest rationales: an alternative to market failure?**

One commonly held distinction (Goodsell 1990) between government and market organizations is that government should work in the “public interest” (Appleby 1952; Flathman 1966; Goodin 1996). Not only do citizens have the expectation of a public interested government (Goodsell 1994; Frederickson 1997), but also there is much evidence that government managers have the same expectations (Rainey 1983; Rainey 1997; Crewson 1997; Wittmer 1991; Wittmer and Coursey 1996). One recent empirical study (Perry 1996) sought to determine the dimensions of government workers’ public service motivation and identified “commitment to the public interest” as one of four core dimensions (the others being self-sacrifice, compassion and attraction to public and politics).

Despite the convergence of citizens' and government employees' views about the public interest, actually determining the meaning of "public interest" (aside from factor loadings on scaled survey items) remains as much of a challenge today as decades ago when Glendon Schubert (1961) judged the public interest as too vague, too value-laden, too utopian, and too inconsistent with the policies of group accommodation to be of much use. Schubert notwithstanding, the public interest concept is still very much with us. In part, this is because legislators continue to make laws citing the "the public interest," regulators continue to regulate in "the public interest" and courts continue to rule in "the public interest." Furthermore, the public interest concept will not go away because, even with all its ambiguity, it has great symbolic power (Goodsell 1990). As Fesler (1990, 91) argues, the fact that it is an ideal provides both its power and its ambiguity.

The simple fact is that public interest is an ideal. It is for administrators what objectivity is for scholars- something to be strived for, even if imperfectly achieved, something not to be spurned because performance falls short of the goal. If there is not a public interest then we must denounce the idea of ideals(.)...If it is illusory, so are justice, liberty, and integrity(.)...(T)hese and other ideal values cannot be absolutes but must be reconciled when in conflict in concrete cases(.)

Just as market failure has its critics, so does the public interest. Cox (1973) views the public interest as, essentially, nothing more than majority interest. Even if this is true, it may not be a damning criticism; the majority interest provides a much better measuring stick (i.e. votes) than one finds in most public interest concepts. Gunn (1968) contends that the public interest is much the same as Bentham's hedonistic utilitarian calculus. If

Gunn is correct (I think he is not), the distance between public interest and market failure is minute. Market-based concepts have for many years included an excellent calculus for utility (e.g. Wicksell 1896), refined substantially in more contemporary treatments (e.g. Breton 1996).

Lippman (1955) defined the public interest as “what (people) would choose if they saw clearly, thought rationally, and acted disinterestedly and benevolently.” (Interestingly, a quite similar concept is found in Adam Smith’s (1776) *Theory of Moral Sentiments*, published originally in 1759). While Lippman's concept has much to recommend it, clearly it is an ideal rather than an operational injunction.

Though classical views of the public interest remain helpful in many respects, contemporary scholars have provided some new and compelling alternative ways of thinking about public value. Two lineal descendants of the public interest theory are considered here: (1) democratic self-transformation theory and (2) communitarian theory.

### **Self-transformation and democratic participation**

Notions of “consumer democracy” notwithstanding, market failure approaches cannot gainsay the benefits of democratic self-transformation. According to advocates of “expansive democracy” (to use Warren’s [1992] term), participation in democratic governance has a redeeming transforming effect on individuals. By this view (e.g. Habermas 1989; 1996), participation in democratic institutions, whether the work place, school or government, often results in a more public-spirited, tolerant and attentive citizenry, results not accruing from market transactions and, generally, results not valued by market criteria.

However, the transformation aspects of democracy are widely disputed, even among proponents of liberal democracy. The fabric of U.S. government, with its limited democracy, representative assumptions and checks and balances runs counter to

transformational democracy tenets. The cornerstone assumptions of pluralism- that interests groups aggregate the raw self-interests of individuals and interests must be held in balance- come closer to the mainstream. But, as Warren points out (1992, 12), one need not accept uncritically the claims of transformation theorists to find validity in the notion of inherent value of participation in governance:

(D)emocracy has an intrinsic, as well as an instrumental, value. Although some values of democracy are means to nonpolitical values, others grow out of democratic processes themselves. Participation completes individuals, in part by enabling them to discover and develop their *public dimensions* [emphasis mine], in part by providing the kinds of interactions that develop capacities for autonomous judgments.

Warren argues that the self-transformation thesis is not equally valid or all configurations of goods and interests and introduced a typology based on the character of goods- excludable or non-excludable, symbolic or material, scarce or abundant. “Public material goods,” ones involving conflict and requiring common action, are especially strong candidates for the inclusion of transformational criteria.

### **Communitarian values**

Communitarian views have had wide appeal, having been embraced by market efficiency disciples and public interest theorists, by garden-variety liberals and neo-conservatives. Michael Sandel (1996) sees privatization as, potentially, a substitution of efficiency criteria for community. In his view, liberal distributional politics, focused on redress of economic inequality, has in some respect contributed to the partitioning of society. He does not favor preserving economic inequality, but recognition that “separate but equal” works no better in crime, housing, schools or other policy realms than it has in education. Redress of economic inequality is not sufficient:

Many liberals [as well as civic conservatives] have missed the civic consequences of growing inequality. A politics attentive to the civic strand of freedom might try to “restrict the sphere of life in which money matters and shore up the public spaces that gather people together in common experiences and form the habits of citizenship. Such a politics would worry less about the distribution of income as such, and more “about rebuilding, preserving, and strengthening community institutions in which income is irrelevant, about preventing corruption by the forces of the market.” It would encourage “class mixing institutions like public schools, libraries, parks, community centers, public transportation and national service. (Sandel 1996, 332-333)

Sandel is one among many who pit communitarians against traditional liberalism. Whereas traditional liberalism “focuses mainly on individual rights and equal treatment with citizen capacity consisting mainly in the power to retrieve these rights” (Taylor 1989, 178-179), communitarianism postulates “a shared consciousness that arises from the identification with the traditions of one’s own political and cultural community” (Habermas 1996, 499). In the communitarian view, the market criteria, as indeed the pluralistic criteria of traditional liberalism, undermines the single most important value in society, the sense of being part of a whole and, through self-determination, the acceptance of one’s rightful place in the political culture. According to this view, neither political faction-based governance nor market-based politics can preserve the requisite sense of shared identity and stake in others political actors’ well-being. Weatherford (1992, 160-161) provides some empirical support for this notion. In his study using public opinion measures as indicators of political legitimacy, he concludes that “the more

effectively the [political] system's representational institutions work to connect citizens meaningfully to the world of politics, the more optimistic they are likely to be about the prospects for collective social efforts.”

### **From public interest to public value**

Much of recent public administration literature (e.g. Van Wart 1998; Beck Jorgensen 1996; Van Deth and Scarbrough 1995; Kirilin 1996) has begun to move from philosophical discussion of the public interest to a concern with identifying "publicness" or public value. Some studies simply posit public values, making no pretense of deriving them. For example, a recent paper by Antonsen and Jorgensen (1997) examines and concludes that Danish public values include, among others, due process, accountability and, welfare provision.

In public administration, much can be learned about public values from the comparative organizational literature (e.g. Perry and Rainey 1988; Rainey 1997). Especially relevant is the research dealing explicitly with values expressed by persons working in public or private organizations (e.g. Wittmer 1991; Crewson 1997; Schmidt and Posner 1986).

Another place to look for public value studies is studies of political culture (for an overview see Bowles 1998). Naturally, distilling public values from cultural-historical analysis is explicitly interpretive. A particularly useful historically informed approach to identifying public and private values, usually in a specific cultural setting, is work on the "moral economy" (e.g. Scott 1975; Booth 1993; Katz 1997). Farmer and Bates (1996) work on the moral economy is especially of interest because they demonstrate the radically different market efficiency outcomes that occur once that value is taken as a constraint on analysis. Farmer and Bates focus on one particular public value in some agrarian societies, the equalization of endowments. Using econometric analysis they

show the possibilities for coupling rigorous analysis of market outcomes with modeling assumptions quite different from traditional neoclassical microeconomics.

A very different, explicitly non-empirical approach to public values is the essentialist approach. The essentialist view, which we can trace at least to the Enlightenment, takes core public values as the foundation of a society's social contract, a set of natural rights. From this perspective, empirical identification of core public values is not at issue. The essentialist view takes public value the very framework permitting civil discourse about values and their resolution.

The notion of discovering essential public values seems somewhat out of place in theory environments dominated by either postmodernism, relativism or positivism, but it is an approach completely consistent with liberal political philosophy and the philosophical cornerstones of the United States federal government's framing documents. Michael Sandel (1996) notes that the frequency of the term "public interest" is unrivaled in the early documents of the United States. He marks the post-World War II era as the period during which "civic strand of economic argument faded from American political discourse" (Sandel 1996, 274). Gawthrop (1998, 8) argues that, since the 1930's, the U.S. democratic political system has been dominated by a "pluralist-bargaining-incremental process," one in which the future is best predicted as a marginal change in the past and whereby political change has been characterized by relatively modest, politically negotiated, adjustments.

### **Public values in a pluralistic society**

As we see from the above discussion, several approaches are available for eliciting public values. Perhaps more troubling than the diversity of *approaches* to ascertaining public value is the diversity of the values themselves. In a highly differentiated, pluralistic society such as the United States, there are fundamental cleavages on public values. Whether the differences are between recent immigrants and citizens of longer standing (Garza 1996), whites and African-Americans (Joint Center for Political and Economic Studies 1999), or a manifestation of religious and class-based “culture wars,” there are many fundamental issues about which Americans disagree fundamentally (Hunter 1991). In the United States, there is not even much values or ideological consensus among elites (Lerner 1996).

One of the few points of consensus among most Americans is a strong value for individual rights and a limited value (at least compared to other Western nations for collective goods (Lipset and Pool 1996). But, of course, public values compete in most societies, not just the United States. The U.S. political systems is structured in a manner to accommodate conflict and public discourse proceeds along its course even when conflict is greatest. Neither the fragmented U.S. political system nor the lack of political consensus need prohibit discussion or analysis of competing values. Charles Goodsell has outlined several competing public values especially relevant to public administrators (Goodsell 1989) and Rorbaugh and Quinn (1981; 1988; 1983) have developed techniques of organizational and policy analysis premised on the need to balance competing values.

Clearly, a lack of consensus on public values tempers our ability to develop simple analytical tools. However, the approach I present below, a public failure model, does not require consensus on values. Rather it is a device for facilitating deliberation and for diagnosing possible lapses in public values. The model will not lead to complete agreement about a course of action. Instead, it is intended to expand the public dialogue about policy issues.

## **Toward a public failure model**

"Public failure" occurs when neither the market nor public sector provides goods and services required to achieve core public values. A public failure approach changes the discussion of public policy by making government (and public values) something other than a residual category or an issue of technical efficiency in pricing structures. A fundamental assumption of the public failure model is that market failure actually tells us little about whether government should "intervene." With the public failure model, the key policy question becomes: "If the market is efficient is there nonetheless a failure to provide an essential public value?"

To some extent, the public failure model begs the question of just what is a core public value. As we see from the above discussion, there is no requirement for consensus in applying the public failure model (or the market failure model). Not that we are without guidance. Both an essentialist philosophical perspective and deliberations about "basic needs" (Pigou 1920; Rawls 1971) prove quite helpful. In the United States, a grounding in the ideas of the nation's founding documents suggest certain core values, including right to subsistence, rule by consent of the governed, civil rights and liberty (see, for example, White 1948; Caldwell 1944; White 2000).

We need no more than this to proceed. The public failure model is not a decision-making tool (a la benefit-cost analysis), but a framework to promote deliberation about public value (and its relation to economic value). The market failure approach to analyzing allocation of goods and services is widely used despite its inability to identify explicitly "core economic value" (money being only a convenient symbol for value). As

a diagnostic tool, the public failure model requires no greater specificity than does the market failure model. To be sure, the public failure model is not premised on anything similar to the abstraction of a perfectly competitive market, nor does it have the convenient symbol of value, monetary indices. But neither does the logic of market failure depend on the entirely unrealistic assumptions of pure rationality and perfect information or the unrealized ideal of a perfectly competitive market. The fact that market failures are ubiquitous and perfect competition virtually unknown, has not undercut the use of the market failure model's general criteria (Faulhaber 1987). Similarly, the lack of consensus on particular public values should not greatly diminish the use of the public failure model in identifying issues for policy deliberation and public dialog.

### **Public failure criteria**

Public failure occurs when the core public values are not reflected in social relations, either in the market or in public policy. I suggest several criteria for identifying public failure.<sup>5</sup> Where do these particular criteria come from? To some extent, they mirror the thinking of market failure. Thus, there is a focus on problems of failure to ensure a legitimate government monopoly (as opposed to a failure to break up a private market monopoly), benefit hoarding (as opposed to a failure of a firm to fully reap the return from its investments due to externalities or non-priced spillover of benefits). However, I do not claim this list as the canonical set of public failure criteria; I suggest only that they may often prove useful complements to the standard market failure criteria now dominating so many social decisions. I present criteria aimed at enhancing decisions about the allocation of responsibilities between public and private sectors (and have avoided criteria that, while important, have limited utility for that task). Table One summarizes the criteria and provides brief illustrations.

**Table one: public failure criteria**

<b>Public Failure</b>	<b>Failure Definition</b>	<b>Illustration</b>
<i>Mechanisms for values articulation and aggregation</i>	Political processes and social cohesion insufficient to ensure effective communication and processing of public values	Combination of U.S. Congress' seniority system and noncompetitive districts leading, in 1950's, to legislative bottlenecks imposed by just few committee chairs who held extreme values on civil rights, national security and other issues.
<i>Imperfect monopolies</i>	Private provision of goods and service permitted even though government monopoly deemed in the public interest	Private corporations negotiating under-the-table agreements with foreign sovereigns
<i>Benefit hoarding</i>	Public commodities and services have been captured by individuals or groups, limiting distribution to the population.	Restricting public access to designated public use land.
<i>Scarcity of providers</i>	Despite the recognition of a public value and agreement on the public provision of goods and services, they are not provided because of the unavailability of providers.	Welfare checks are not provided due to the lack of public personnel or failures of technology for electronic checking transactions.
<i>Short time horizon</i>	A short-term time horizon is employed when a longer-term view shows that a set of actions is counter to public value.	Policy for waterways that consider important issues related to recreation and economic development but fail to consider long-run implications for changing habitat for wildlife.
<i>Substitutability vs. conservation of resources</i>	Policies focus substitutability (or indemnification) even in cases when there is no satisfactory substitute.	In privatization of public services, contractors have to post bond-ensuring indemnification, but provide inadequate warrants for public safety.
<i>Threats to subsistence and human dignity</i>	The core value of subsistence is violated.	Man-made famine, slave labor, political imprisonment.

***Values articulation and aggregation.*** Public failure occurs if core public values are skirted because of flaws in policy-making processes. If there is insufficient means of ensuring articulation and effective communication of core values, or if processes for aggregating values lead to distortions, then there is likely public failure.

A crude but instructive way of conceptualizing the breakdown in values articulation and aggregation is to examine policy outcomes in the context of expressed public opinion. Consistently, public opinion has strongly favored a variety of forms of gun control, but state legislatures and the U.S. Congress have, time and again, followed at a snail's pace. This disjunction between public opinion and policy outcome is not *necessarily* a public failure. Legislators and public actors sometimes play Burkean roles rather than acting as instructed delegates. But when the disjunction between public value and public policy results from the dependence on the campaign contributions of political action committees representing values strongly at odds with the mainstream, then public failure has occurred.

A more innocent, but nonetheless inimical, source of value aggregation public failure occurs when political officials do not represent the core public values of a society. This can occur for a variety of reasons. During several different periods in the history of the U.S. Congress, seniority rules have permitted small, unrepresentative factions to dominate entire policy domains for decades (Hinckley 1971). As non-competitive districts (often disproportionately in the Southern U.S.) returned the incumbent member of Congress again and again, a small number of like-minded persons from the same region had an unbreakable hold on powerful committee chairs, from which they were often able to quash policies favored by the vast majority of their colleagues and by the majority of U.S. citizens (Fenno 1973).

Another reason public values sometimes have difficulty surfacing is that party recruitment generally results in candidates holding views more extreme than those held by the general public (Ryden 1996), with Democratic candidates tending to be more liberal than the rank and file Democratic voter and Republican candidates tending to be more conservative than the Republican rank and file (McClosky 1964; McClosky Hoffman and O'Hara 1960). This is not to say that the best policy-making body is the one that is most representative. Legislators also tend to be unlike the general electorate because they are better educated and better informed about public issues. But when political recruitment results systematically in policies being developed by people who hold values outside the mainstream, there is clear potential for public failure.

***Imperfect monopolies.*** Several examples of imperfect monopolies illustrate the possibilities for public failure. A relatively innocuous example is the inability of the U.S. Postal Service to control its first class mail monopoly. This could result in higher postal prices and, at the same time, mixed signals to carrier firms. But let us consider a more significant legitimate government monopoly. The U.S. government, according to the Constitution, retains a monopoly of foreign policy. James Q. Wilson (1989) uses the term “sovereign transactions” to characterize nations’ dealings with other nations. Recently, the U.S. government has had some difficulty controlling its monopoly on foreign policy. When Reverend Jesse Jackson mediates in Yugoslavia or Jimmy Carter in Iraq, one interpretation (assuming they are not authorized envoys) is a breaking down of a government monopoly. Even if there is a desirable short-term outcome from the role of individuals in U.S. foreign policy, we may nonetheless wish to consider possible implications for public failure. The diagnostic criterion at least serves as a red flag.

Another especially troubling example of possible public failure due to imperfect monopoly is failure to restrain an exclusive government monopoly on use of deadly force. Is there any greater public failure than a high murder rate or instances of vigilante action? When school children in Littleton, Colorado execute their classmates or when thugs drag a man to his death because of his race, one might argue that these are "private failures," perpetrated by persons who, at least temporarily, have no moral compass. But to the extent that acts of violence relate less to private maladjustment or psychosis, and more to failures of social relations and weapons policy, these are public failures.

***Benefit hoarding.*** A classic market failure problem is externalities, or spillovers. The costs and benefits of externalities thwart attempts at efficient pricing and result in

market failure. Similarly, a public failure occurs when there are public domain benefits- benefits that should be distributed freely throughout the population- which are for some reason not distributed. This can occur because of benefit hoarding- a group or segment of the population has managed to siphon benefits that are, by their nature, public domain. In such cases, the fact that a market structure has developed, whether and efficient one or not, is irrelevant and perhaps insidious.

One of the more controversial instances of *possible* benefit hoarding arises in public education. In some societies it is a core public value that every child is entitled to a quality public education. Perhaps the most extreme case is Japan, where there is at least one rural school district built entirely around the school district's single school age child, this despite a cost of about \$200,000 required for renovating an old schoolhouse and hiring a first grade teacher and principal (Kristof 1998). But public failure need not rely only on such extremes. In the U.S. there is a long tradition of locally financed and locally controlled schools, and there are enormous disparities in the amount spent per pupil according to (among other factors) the wealth and willingness to pay of one's school district. If, due to maldistribution of educational financing, the public education available to many children is woefully substandard, benefit hoarding has occurred and there is, arguably, a public failure.<sup>6</sup>

Benefit hoarding need not imply any particular pattern of exploitation (e.g. rich exploiting poor). Any of a variety of circumstances can lead to benefit hoarding, and while it is generally the case that the hoarding segment exerts power, the power can be of a variety of types.

A particularly interesting instance of benefit hoarding that cuts across income and class lines pertains to the agricultural innovation of the “terminator gene” introduced into plant seeds (Lambrecht 1998). The technology works in three major steps: (1) borrowing a seed-killing toxin from another plant, genetic engineers insert it into the genome of a crop plant; (2) in order to breed enough generations of the crop to produce a supply of seeds, scientists also insert blocker DNA that suppresses the production of the toxin; (3) before the seeds are sold they are immersed in a solution that induces the production of an enzyme that removes the blocker, (4) after the seeds are planted and the crop matures, the toxin is produced, killing the new seeds the plants carry. Farmers who want the same crop line the next year must thus buy new seed.

Currently, about 1.5 billion farmers, ranging from subsistence farmers to giant corporations, winnow one year’s seed to produce the next year’s crop. This practice has been employed, uninterrupted, for more than 12,000 years. One could infer that agricultural subsistence relies on the practice. Even were the terminator seed to prove a great market success (now unlikely due to public outcry against it), it could remain a prodigious public failure, hoarding benefits of seed replication for persons of means. Arguably, terminator seeds sacrifice potential for human sustenance to the ability to levy efficient pricing on a good (derived, second generation seeds) that should not be priced at all.

***Provider scarcity.*** Public failure can occur because there is a deficit of providers for a core public value. A controversial case is the shortage of abortion doctors in the United States. It is not clear that the right to an abortion is a core public value (does 78%

agreement in polls serve as an adequate index?), but if it *is* deemed a core public value then it is one that is often unmet or at least difficult to meet because of provider scarcity.

A broader example of provider scarcity is the phenomenon of the “hollowing out” of government (Milward, Provan, and Else 1993; Rhodes 1994). Due to the rise of “government by proxy,” including contracting out and sale of public enterprise, there is in some cases insufficient government capacity to provide for public values (Kettl 1988; 1993). If the conferral of public value has been delegated to private contractors there is no *necessary* failure in public value, but there is at least a potential hazard. If government does not have the capacity to ensure core public values and must rely on the lowest public bidder, the possibilities for public failure increase. This occurs if government becomes hostage to contractors, which can occur in the absence of a nonmarket means of providing public value and, from a practical standpoint, the inability of government to monitor contractors.

In some respects this problem is the “flip side” of the proprietary property rights problem. According to property rights theorists, government is less efficient because it lacks owner-operators conducting technical efficiency. But if government has no “owner-operators” conducting public value (Demsetz 1967; De Alessi 1969), there is an equivalent but more severe hazard. Riker and Sened (1991, 966) provide an interesting view of government as the creator of property rights (not just the guarantor). In their studies of airport space allocation they found that “Most property rights-holders waited passively for officials to thrust rights on them.” Dobbin and Dowd’s (1997) case studies of railroad foundings between 1825 and 1922 show a similar role for government in “pushing” property rights on relatively passive business founders.

A recent example of provider scarcity is nuclear waste clean up. The market has worked well in regulating the supply of nuclear engineers. As a result of the greatly diminished use of nuclear power plants, and the subsequent lesser demand for nuclear engineers, number of persons pursuing nuclear engineering degrees plummeted for more than a decade. Currently, there is no critical shortage of nuclear engineers. But the problem of nuclear waste clean up and disposal will be with us for thousands of years and the market is not adequate to the task of ensuring continued technical expertise and capacity. When the market is again sufficient to warrant increased numbers of nuclear engineers, there will likely be a significant and perhaps dangerous lag in capacity as the market seeks to catch up to the severity of the public problem. The problem of capacity and markets also relates to time horizons, as discussed below.

*Short time horizon.* Market failure theory, as so much of positive economics, deals poorly with extended time horizons. Thus, if one is assessing market failure by, say, the criterion of monopolistic tendencies, what time band does one employ? Similarly, if there is currently no efficient pricing structure because of externalities, how long does one wait for one to emerge? Moreover, the most we can expect of a purely rational owner or operator of a firm is that she will consider implications for her own lifetime and those of her offspring. Human beings pay regard to unborn generations, but they do not do so out of economic rationality.

The public failure criterion of focus on too short a time horizon relates to many familiar problems of theory. For example, information economics remains stymied by the fact that returns to knowledge investments, especially basic research, sometimes occur in unpredictable ways and over distant (at least to contemporary decision makers and

investors) time horizons. But the practical social implications of time horizons are dire. Intergenerational equity issues have begun to dominate a good deal of discussion about social security and other public welfare investments (for a review, see Wisensale 1999). Many cases of potential public failure due to short-term perspectives occur in environmental policy as policy-makers consider unborn generations' environmental heritage (e.g. Howarth and Norgaard 1990).

Let us consider another case from the agricultural realm- genetically altered food. Companies such as Monsanto have invested millions of dollars developing pest-resistant corn and soybeans and, generally, extending the shelf life of agricultural products (see Specter 2000). Demonstrably, the results can be applied in Third World nations that have fewer soil nutrients, limited availability of effective pest control, and primitive means of food preservation. The applicability of genetically altered crops and foods to solving near term problems of world hunger seems undeniable. Absent government intervention, this is a potential market success: worldwide need, expanding markets, available suppliers with patented products (allowing them to reap rewards from their investment).

What is a short-term market (and perhaps public) success may prove a long-term dire public failure. In the long term, the possibilities for ecological destruction may be enormous. It is not possible to predict the many calamities that might occur as genetically engineered plants begin to mingle with naturally occurring ones. However, one recent episode underscores implications on using a potentially sound near-term market solution (Specter 2000, 66-67). In the mid-1990's a "Round Up Ready" canola was created that was resistant to Round Up pesticides. It had the enormous advantage of permitting applications of Round Up to the weeds surrounding the canola while the

canola remained unaffected. 1997, some of the genetically altered canola “escaped” from its controlled environment, cross-pollinated with related species of weeds and produced a Round Up-proof “superweed.” While similar calamities have occurred before the era of genetic engineering, the episode underscores that near term economic (and public) benefits must be weighed against much longer-term benefits. There is clearly a public role in guaranteeing the “much longer term” perspective (witness the role of government in nuclear waste disposal), even in instances where there is no near term market failure.

*Substitutability vs. conservation of resources*<sup>7</sup>. Promoting conservation of natural resources has a relatively brief history of public concern. Only in about the last 150 years has much of the world begun to awaken to the exhaustibility of the planet's resources. Despite the fact that economics, at its very base, provides ways of thinking about resources and the exchange of resources, market failure models have proved problematical as framework for public values related to resources.

The market failure model's central concern with efficient markets is generally neutral with respect to the commodity or asset valued or exchanged. This results in market-based solutions to resource scarcities that sometimes promote efficiency but have dubious effect on public value. Thus, the economic solution to air pollution, the scarcity of clean air, is to make the market for clean air more "efficient" and creation of a market for pollution credits seems a perfectly acceptable means to that end. There is much controversy as to whether the approach is also a good means to the public value end of a cleaner environment. While market-based approaches have strong advocates (e.g. Stavins 1989), Kelman (1981) notes that the use of market incentives may actually encourage pollution. While taking no position on the pollution amelioration effects of

this market approach, I simply underscore that this is an excellent representation of the impact of market-based thinking on public value.

The limitations of a market failure model are perhaps most compelling with respect to the sustainability of ecosystems (Toman, Pezzey, and Kratkraemer 1995). Standard economic accounting tends to focus on marginal well being, paying heed to the substitutability of resources and limited heed to the irreversibility of diminished but substitutable resources. Risk is perceived in terms of efficiency and, indeed, is defined in cost benefit terms as applicable to forests as to consumer goods. Indeed, much of cost-benefit analysis emerged in response to needs to value natural resources and public works (Krutilla and Eckstein 1958). However, ecologists and some economists (e.g. Victor 1991; Krutilla and Fisher 1985) have begun to note to considerable faults in marginal cost benefit accounting for natural systems. In the first place, standard economics tends to deal well with efficiency criteria but poorly with conservation issues. Economics tends to search for substitutes for depletable assets and, if the assets are depleted and harm occurs, to indemnify with monetary assets. As Norton (1987) notes, the complex and multi-level interactions of ecological systems thwarts human attempts to calculate what is and is not an acceptable substitute. Similarly, with unique habits it is sometimes virtually impossible to make satisfactory economic calculations of the impact of damage or the potential for reversibility. The economic approach to hazard relies strongly indemnification and substitutability, a strategy requiring potential substitutes (when in some cases there are none) and exchange value (when in some cases there is no acceptable exchange).

While the point is especially clear in analysis of ecological issues, the characteristic approach of market failure models has much the same impact in other realms. It is commonplace for corporate strategists to calculate acceptable losses. Thus, the manufacturer of an automobile must plan for the possibility of successful wrongful injury suits and is usually “self-insured” against such suits. We know from corporate histories that automobile manufacturers make strategic decisions that weigh loss of human life against a variety of other factors, including energy efficiency, steel content, and so forth. The market approach is to consider risk, including risk of human lives, against cost and profit. The approach focuses on insurance and indemnification policies. In especially pernicious cases, reason is distorted such that the loss of human life from trucks' exploding gas tanks is considered in terms of overall profit and levels of indemnification against expected lawsuits. While individual morality is really the issue in such decisions about the acceptability of exploding gas tanks, tobacco-related deaths or numbers of infants killed by the toxicity of baby formula, the analytical framework one uses has potential to affect judgments as to whether human lives are substitutable assets.

***The greatest public failure: threats to dignity and subsistence.*** Political philosophers have long recognized the role of government in ameliorating (in Thomas Hobbes' terms) the "War of All Men Against All Men" (Oakeshott 1946). The sacrifice of individual autonomy is redeemed by the expectation that the sovereign will prevent the most brutal and rapacious activities of human kind (Laski 1930). Arguably, no greater public failure exists than failure to provide human dignity and subsistence. The nation's relative resources play a role in gauging the extent of failure. In the poorest nations, threats to subsistence and human dignity have no less dire consequences but they are less

public failures if the nation has few resources to distribute or if the nation is barely a "nation." In nations having a richer resource base, subsistence and human dignity threats are greater public failures not only because resources afford choices, but also because the failures give rise to or exacerbate social cleavages, thereby threatening not only the individual but also the nation.

Subsistence as a public value criterion can be traced to Aristotle and explanations as to why families come together to create communities and the polis. But there are several contemporary intellectual strains concerned with social issues relating to subsistence. In addition to the long-standing traditions in economics, including both the "basic needs" literature (Pigou 1920; Morris 1979; Kemp 1998) and social choice analyses of poverty and subsistence (e.g. Atkinson and Bourguignon 1982; Sen 1979), important analyses occur at the cusp of politics and economics. Rawls (1971) identified "primary goods," assets that any sane individual may be assumed to want (e.g. food and water, shelter). One relevant approach, combining economics, anthropology and political theory, is the "moral economy." James Scott's (1976) analysis of social transactions in modern peasant villages analyzes "embedded economies," ones in which there is no separation of economic from social life and, indeed, no concept of economy apart from need. Exchange is based on collective interests where the transcendent interest is the need to maintain subsistence and to insure against calamity. Indeed, Sahlins (1972, 76) maintains, "to speak of 'the economy' of a primitive society is an exercise in unreality. Structurally, 'the economy' does not exist."

In his essay on the moral economy, Booth (1994, 654) argues that the appearance of a disembedded economy, an economy that is separable from communal life and joint

interest, “challenges the governing right-to-subsistence ethos, together with its norms of reciprocity and charity, and in doing so brings on a revolutionary response. Pre-market peasant village “economies” exist on reciprocity norms, with common agreement on the right to subsistence. The emergence of a disembedded, semi-autonomous economy, premised on valuation of privately held goods, shatters the normative compass of the village. In its place is a set of norms, beliefs, and (ultimately) laws centering on alternative means of producing and allocating transitively valued commodities.

To elucidate the ways in which the market and public failure can co-mingle and affect prospects for subsistence and human dignity, I present an extended example below—the trade in human organs. The example underscores that public failure can occur even in the face of efficient markets.

### **Human organs in the market: implications for a public failure model**

In the United States, it is illegal to purchase a healthy human organ from a willing donor. Strict prohibitions were set forth in the National Organ Transplant Act of 1984 making the sale or purchase of human organs punishable by up to five years in prison or a \$50,000 fine. Notwithstanding, a recent posting at the Internet auction site Ebay seems to show that an organ auction would prove highly remunerative. According to an account published in the *New York Times* (Harmon 1999), a September 2, 1999 posting from a Sunrise, Florida Internet user offered a healthy, as yet unharvested human kidney. The ad read:

"You can choose either kidney. Buyer pays all transplant and medical costs. Of course only one for sale, as I need the other to live. Serious bids only."

The bidding, which started at \$25,000, climbed to \$5,750,100 before the Ebay monitors pulled the plug on the illegal auction. While it is difficult to know whether the posting was serious (most media accounts treated the episode whimsically) and which, if any, of the bids were true to the "serious bids only" injunction, the posting raises a number of questions relevant to the public failure model.

In the United States, issues pertaining to the market for human organs are, at least for now, played out in theoretical deliberations. But in other nations, organ sales controversies have greater immediacy. In India, as many as five percent of organ "donations" are from sales in the open market. The fact that the average worker commands the equivalent of about eleven dollars per month suppresses the market value of organs, with kidneys bringing only about \$1,500 to the seller and corneas averaging less than \$5,000 (Chandra 1991; Kumar 1994). Studies suggest that the Philippines is, likewise, an active market in private sales of human organs (*Medical Industry Today* 1998). While officials have issued sharp denials, reports continue of the use of Chinese prisoners' organs appearing in world markets (National Public Radio 1994; *Lancet* 1998). Perhaps most disturbing is evidence gathered by Amnesty International and Save the Children that Brazilian children are being kidnapped for the purposes of forcibly extracting organs for sale to human organ syndicates (Pike 1998).

In the United States, sharp debates about organ sales preceded the Ebay episode. A Harvard professor of law and economics (Shavell 1999, 22), writing in the *New York Times* in response to an editorial (Groopman 1999) decrying the trade in human organs, argued "If a desperately ill individual who would die without a kidney is able to buy one from a healthy individual, both are made better off. Why...stand in the way of market

transactions that will not only make those who engage in them happier but also save lives?"

Human organ sales provide an excellent illustration of public failure criteria *because* the sale of human organs is easily rationalized from an economic efficiency standpoint: the purchaser would be better off, and if the donor is willing to take the risk to sell an organ and receives the "going price," the donor is demonstrably better off. To be sure, the individual selling a kidney is taking a significant personal risk, but this only suggests that the price will need to be high, compensating the individual for the risk of living with a single kidney.

One might bring the same objection to living human organ transactions that one brings to the controversy about forced wearing of motorcycle helmets. If one fails to wear a motorcycle helmet and, as a result, sustains major head trauma, the most lethal result from most motorcycle accidents, there is a major externality. In many societies, the cost of medical treatment is not borne solely by the individual and, thus, one's failure to wear a motorcycle helmet puts the rest of society at risk of having to pay for the individual's indiscretion. Not only does society take the burden of avoidable health costs but also provides payments to survivors and loses the productive value of an individual whose life is shortened (usually, in motorcycle accidents, young males, a demographic group who generally have high work productivity value).

Much the same argument can be made against the trade in human organs. If the person who takes the risk of living with just one kidney turns out to have made a bad bet, then society, not just the individual, suffers the cost. This is especially likely since the

sellers will come disproportionately from the poorer segments of society, selling their "natural resource" to the wealthy.

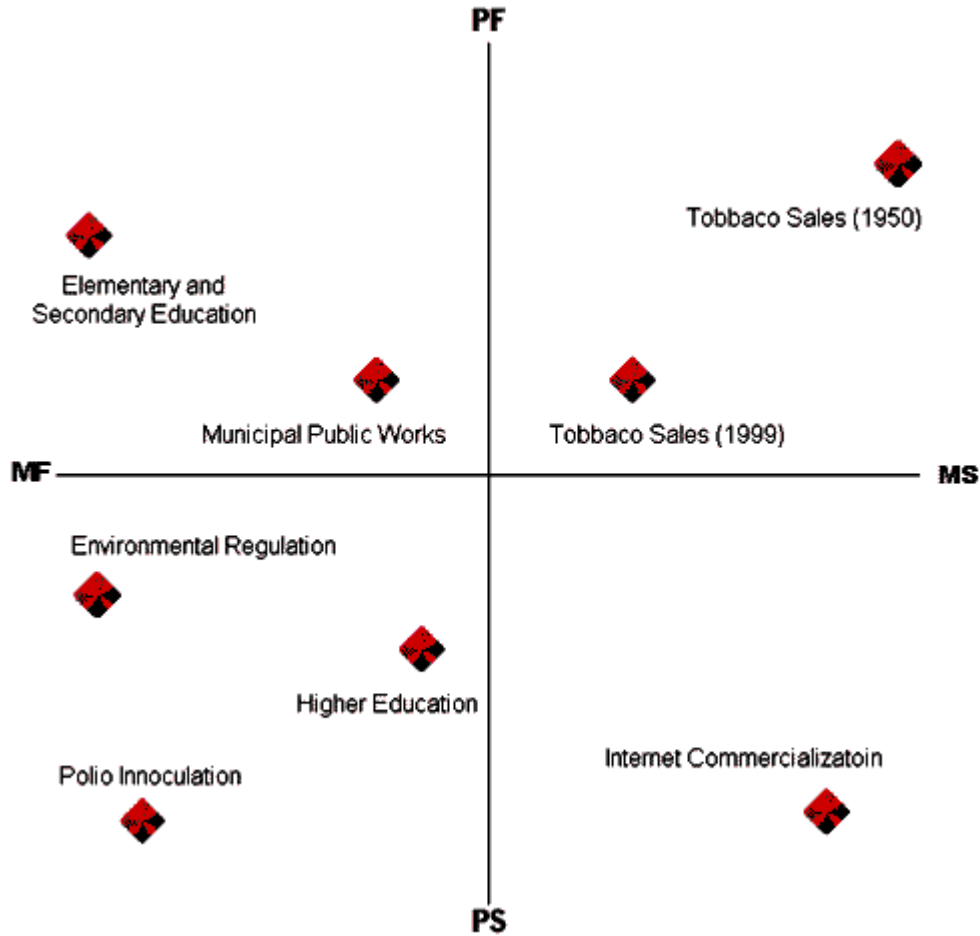
Proceeding on a market failure basis, one might suggest market palliatives. For example, organ transactions should require indemnification. An escrow could be built in to the organ's purchase price such that those who take a risk and lose can draw from this privately provided insurance fund, thereby reducing the burden on parties external to the transaction. In this way, organ transactions remain economically efficient and externalities are reduced.

The problem with a market failure analysis of organ transactions is that it avoids the factors that most persons would find reprehensible, the degrading of human beings and victimization of the poor. Human organ purchase is *not* a purely private matter. The key point from a public failure framework is this: commercial organ transactions cost society because they promote dehumanization and, ultimately, social cleavage. The social disruptions resulting from an "economically efficient" market in life human organ sales require a government role to ensure public value. Truly, market efficiency is beside the point.

### **The "Public Value Grid": intersecting public value and market efficiency**

Let us consider the relation of public failure and market failure. The two are *not* single poles on a dimension or even two orthogonal dimensions. Instead, it is best to view the two as axes of a grid, as in Figure One.

**Figure One: Public Failure/Market Failure Grid**



The notion of setting market values against other values not easily encompassed by market framework is not new. For example, Page (1977) suggested contrasting dimensions of market efficiency and conservation of resources. Norton and Toman (1997) speak of "two tiers," one an efficiency criterion, the other a conservation criterion. Figure One provides a highly simplified depiction of public failure and market failure, illustrating the possibility of a virtually infinite range of outcomes among the extremes of complete public failure, complete public success, complete market failure, complete market success. One obvious point is that market failure, and the concept of

public failure provided here, need not be correlated at all. One can have one's cake and eat it too. One can be denied the cake and the eating.

Figure One gives some illustrative outcomes that I have assigned on the grid. The actual location on the grid is not (and need not be) precise. Not only would an enormous amount of empirical information be needed for "accurate" location, but also the notion of success-failure (especially in the instance of public values) is bounded by individual preference. These illustrations reflect, at least in a crude way, my own preferences and empirical understanding.

In the grid, we see that tobacco policies in the U.S. are listed for two different times, indicating that success/failure "floats" and that the grid may look much different from one point to the next. In 1950, tobacco sales and profits were booming, tobacco-related health regulations were quite modest and an obvious public value, public health, was greatly threatened. By 1999, the market for tobacco (at least in the U.S.) was diminishing somewhat and government regulation in the interest of public health values was increasing from every quarter. Thus, we moved from a "MS/PF" to a moderate public and market outcome.

Perhaps the least common, but certainly the happiest outcome, is the "MS/PS," which seems to be the case with the late 1980's commercialization of the Internet. After government agencies, first the Defense Department's Defense Advanced Research Projects Administration and, then, the National Science Foundation, had provided computing infrastructure for an Internet based on national security and scientific research needs, the decision was made (see Rogers 1998) to extend the Internet to commercial use. While the Internet, much as any ubiquitous social phenomenon has not been a

success in every possible respect (witness controversies about privacy, pornography and intellectual property), most observers would, on balance, assess the commercialization of the Internet as both a market and public values success.

It is also useful to consider briefly the placement of municipal public works. Depending on the locality and historical experience, municipal public works could be at nearly any point on the grid. A wide variety of service provision arrangements has been employed (see Savas 1987; 2000) for an overview) and, apparently, with an equally diverse set of results. The placement of municipal public services at the midpoint might need correction in the face of empirical survey, but at least represents the multiplicity of outcomes.

The simple logic and possible application of the public failure/market failure grid is straightforward. It matters not at all whether one agrees with me that, for example, elementary and secondary education is both a market failure (private schools and vouchers notwithstanding) and, generally, a public failure. The point is that thinking in terms of public failure (and public success!) conduces a view to public values. Thinking in terms of market failure and government *intervention* conduces a view to efficiency. Efficiency is a vital consideration, but there is no reason for it to dominate policy deliberations simply by force of available analytical tools. In Bator's (1958, 379), "sometimes efficient markets may not do."

## **Conclusions**

In their classic treatment of the convergence of politics and economics, Dahl and Lindblom (1953, 161-168) contemplate reasons why economics centered on choice and allocation as a central problem for the discipline. As they note, "(h)ow different this

situation might have been had economists felt the same enthusiasm for defining an optimum distribution of income as for an optimum allocation of resources, if they had pushed with vigor the equalitarian notions that some of them believed their cursory explorations in ideal or preferred distribution forced upon them” (Dahl and Lindblom, 1953, 163). Dahl and Lindblom go on to explain the attraction of economists to choice and allocation questions as owing to several factors, including the fact that choice and allocation questions lend themselves to the construction of mathematical models through which maximization problems could be precisely examined. One result of proscribing economics in this fashion is that “morally, politically, and intellectually, the economist was spared by his concentration on (the technical aspects of) choice-allocation processes. It was interesting to see how he attempted to find a place for the other processes under the choice-allocation rubric in order to extend his field without losing its advantages” (Dahl and Lindblom 1953, 163).

The question of why economists came to focus on refining analyses of the technical aspects of choice seems less interesting question than why noneconomists have departed the field, permitting so many public decisions analyses to be framed almost entirely in the parlance, theory and tools of economics. Economists’ criteria have flourished in large measure because alternatives typically have little analytic precision and, generally, offer few practical guidelines for public policy analysis and policy decision-making. The moral and intuitive appeal of public interest exhortations has not been buttressed (except in case law [Sandel 1996]) with practical decision guidelines.

Providing a complement to market failure theory, the public failure model underscores the need to consider public values, irrespective of market efficiency. In some

instances (the market for tobacco products comes to mind), the market is efficient *because* of a failure to ensure public values.<sup>8</sup>

The usefulness of the public failure model must be gauged in terms of its suggestiveness, especially the extent to which its "diagnostics" help underscore values not easily specified. The public failure model is not a *substitute* for market failure, not only because its domain of theoretical concern is quite different but also because it has no accompanying measurement apparatus. Indeed, the obvious objection to a public failure model is that it seems to hold little promise of measurement precision. Compared to, say, benefit-cost analysis,<sup>9</sup> the public failure model is a set of guidelines rather than a measurement approach. But the public failure model is quite similar to market failure theory in its purpose and use. The public failure model's analytical strengths and weaknesses are much the same as market failure's. These include:

1. Neither the public failure model nor market failure provides a strong explanation, but rather a set of normative guidelines based on explicit, albeit somewhat imprecise, assumptions.
2. Both the public failure model and market failure rely on an unmeasured ideal concept. Market failure theory considers departures from a perfectly competitive market. The public failure model generally deals with particular public failures that, depending on the substantive content, may be more or less amenable to measurement.
3. While useful diagnostic tools, neither the public failure model nor market failure provides much insight into what steps are required to address a particular problem. There is an implication in each that collective action is required but failures merely signal the need for action.

Public failure provides a tool for asking questions relevant to public policy deliberation. If this seems too modest a contribution- simply framing questions- let us consider Robert Reich's (1990) observation that the policy-maker is in a "deliberative

relationship,” that “rather than making ‘decisions’ and then ‘implementing’ them, your role is to manage an ongoing process of public deliberation and education.” Contemporary discourse is all too often dominated not by public values but by market intervention, technical efficiency and the private value of things public. The public failure model has the potential to expand the “rhetoric of civic discovery” (Roberts 1995).

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## Endnotes

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<sup>2</sup> A cross-national sampling of recent papers dealing with market-public boundary-setting in various nations includes Antonsen and Jorgenson 1997; Chaudhry 1994; Dhiratayakinant 1995; Emmert and Crow 1988; Gray 1996; Landry 1993; Rhodes 1994; Rouban 1993; Kickert 1996; 1997.

<sup>3</sup> Readers who wish a more detailed account of the market failure model, its assumptions and its relation to public policy and public finance issues may wish to consult and of several basic texts treating the topic. I especially recommend the cogent and relatively detailed (but still introductory) account provided by Bruce (1998). McConnell and Brue (1996) not only provide a useful introduction but do an excellent job of illustrating the application of market failure concepts. In their critique of market failure, Zerbe and McCurdy (1999) provide a useful, succinct history of the concept.

<sup>4</sup> For years, economists have wrestled with the Impossibility Theorem which the inability of choice mechanisms to provide for common welfare under any but the most draconian of assumptions (e.g. dictatorship). More recently, several economists (e.g. Sen 1970; Gevers 1979; Suzumura 1997). have demonstrated results that are less pessimistic.

<sup>5</sup> None of these criteria is necessary or sufficient for government action (or private intervention), but each suggests that remediable action should be contemplated.

<sup>6</sup> This is not, however, a clear-cut case. Local control is also a strong public value and, as is so often the case, the public failure may be in locating the trade-off of values at a point not reflecting the actual distribution of the respective values.

<sup>7</sup> This section draws from Norton and Toman (1997).

<sup>8</sup> To be more precise, this example is one of the trade-off of public values- community health and well being versus consumer sovereignty and liberty.

<sup>9</sup> While benefit-cost analysis did not originate or evolve from market failure theory, its reasoning shares much with market failure theory and each connects more broadly to neoclassical microeconomic analysis. One of the earliest modern formulations of benefit-cost analysis is Krutilla and Eckstein (1958), but the technique has much earlier roots (Dupuit 1844).

