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The Importance of Public Goods Provision to the Communities and the Associated Problems

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Abstract:

The initial theory on public goods was by Kenneth Arrow, Richard Musgrave and Paul Samuelson (1954-1955). Arrows (1972) discourse on the role of the public and private sector and Musgrave (1959) book on public finance provided the frame work to what has become known as the proper role of the state in the economy. The importance of public goods provision in any society cannot be underestimated by any responsible government because a non – provision of it could mean the people would live in life of penury of perpetual deprivation of an abject poverty. Unfortunately public goods provision is a difficult phenomenon for any government to provide partly because it is very sumptuous to provide and also because of free riders problem resulting from the unwillingness of some users of the goods to pay for it and also because of jurisdictional spill over effects. This article is based on desk research using secondary sources of information. It is argued that the provision of public goods while remaining the preserve mostly of the government can be a complex issue and that public goods provision is mostly a budgetary fiscal decision and that the size of the budget coupled with the will of political leaders and the wiliness of the electorate to pay for it is very necessary and crucial to the adequate and amount of provision of public goods and services. .

Keywords

Public Goods Provision, Communities, public finance, budgetary fiscal

Introduction

The provision of public goods and services by sub government is an essential and integral aim of fiscal federal practices. Arrow (1972) discourse on the role of public sector identifies three roles for the public sector: firstly, correcting marketing failure, secondly, ensuring an equitable distribution of income and thirdly, seeking to maintain macroeconomic stability. The provision of public goods is essential to alleviate poverty, which is my objective in this article. This theoretical frame work was basically a Keynesian one which advocates for states to intervene in economic affairs. Thus the government is expected to step in where market mechanisms have failed due to various forms of public goods characteristics. Economists teach us that public goods would be under provided if they are left to private individuals because the gain or benefits accruable to him/her would be far lower than the benefits to wider society. The theory focuses on situation where different levels of government provide different levels of outputs of public goods "for those goods whose benefits were encompassing the geographical scope of their jurisdiction"(Oates, 2004. 5). Such situation according to Olson (1969) came to be known as "perfect matching" or fiscal equivalence.

Public Good

In a general context public goods are defined by Hyman (1993) as goods and services "for which there is non-rivalry in consumption and non-excludable" p.130. This non-rivalry connotation according to Hyman (1993) means that many consumers can enjoy a given quantity of public goods and at the same time there would be no decrease in the amount enjoyed by them. Examples are national defence, television, and radio transmission. Therefore even when there is an increase in population, the reduction brought about by the increase will not lead to anybody suffering in the reduction of the quantity of the goods and services. The non-excludability means that it will be too expensive and also not feasible to exclude people who may not wish to pay for the benefits they enjoy from a given amount of service.

However according to Peterson (2007) geography can place a limit to the non-excludability of public goods, hence they differ by the user capacities. Therefore public goods can be divided into different categories: global, international, public, national, regional and local public goods. This is why Oates (1972) enthuses that not all public goods have similar spatial characteristics. Some, such as defence, benefits the entire country, others such as regional transportation systems or forestry services benefits regions. When "the jurisdiction that determines the level of the provision of each public good includes

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precisely the set of individuals who consume the good" there is "perfect correspondence" in the provision of public goods (Oates 1972, p.34)

International public goods are most universal by its geographical coverage and all people can benefit anywhere in the world, such as international defence pact, peace keeping mission, knowledge, clean environment and economic stability. National public goods are goods that are not excludable within a nation's boundary such as national defence, National legal Aid System, and social security. Local public goods are goods, which are limited in their capacity to the local jurisdictional boundary. Thus, Oates (1999) says that: "each level of government, possessing complete knowledge of the tastes of its constituents and seeking to maximize their welfare, would provide the pareto-efficient level of out-put … and would finance this through benefit pricing" (pp.34-35). Oate's normative policy conclusion is that "for a public good – the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of out-put of the good in each jurisdiction are the same for the central or the respective local governments- it will always be more efficient (or at least as efficient) for local governments to provide the pareto-efficient levels of out-put for their respective jurisdictions than for the central government to provide any specified and uniform level of out-put across all jurisdictions" (Oates 1972, p.35). Also traditional public finance theory argues that the "government level, which is much closer to the people of their respective jurisdictions, has a better knowledge of both preferences and costs" (Oates, 1999, p.1123). Therefore, the jurisdictional level with best information should supply the respective public goods. Consequently the rationality following this notion is that central government to provide nation's public goods and services, local to provide local public goods and services and regional to provide regional public goods respectively. This is similar to the economic theory of the law of comparative advantage and also the principle of subsidiary.

People tend to hide their true preferences for public goods and services because of its non-rival and non-excludability. When individual receives public goods and services whether he/she pays for it or not he/she is tempted not to contribute to the production of it. This situation many researchers, for example Aiyede (2009) called a 'free rider' problem, which justifies the government provisions of the public goods, which can only be financed through the consumers paying taxes that would ensure that everyone pays in accordance to individual circumstances, regardless of consumption and income.

Local public goods, the benefits are only non-rival to the local population who live in certain geographical area. These goods are best and most efficiently provided when it is financed by the local government, example refuse collection, traffic control, public sanitation, water and sewage services, local policing, roads as well as education, especially primary education. The main advantage of this posits Tanzi (1996) is that it allows governments to provide goods and services in accordance to the variation, in tastes and costs condition. Under these circumstances where decision is made at a local level in a federal system to provide public goods and services and financed with local taxes, such a situation will be superior to a centralized system of public goods provisions.

From the above discussion one can conclude that public goods and services benefit those citizens in the jurisdiction where they are residents. But quite often than not, public supply also has beneficial effects on citizens of neighbouring jurisdictions which called spill over effects and according to decentralization theorem, Oates (`1972) says that in case of spill over a centralized system is preferred and without spill over's decentralized systems are superior. But traditional theories argue that the centralized provision of public goods is insensitive to the preferences of the local citizen.

This discussion implies that public goods could be efficient if different jurisdictional levels do supply the public goods with different capacities, steered by citizens' preferences. Therefore national government should provide national policy and provide an efficient level of national public goods for their constituencies. Thus the volume of public expenditures will be determined by the quantities of the public goods supplied, which are determined by the citizens' preferences. This result can only be achieved through a successful implementation of political and decentralization of a meaningful nature allowing elections to take place at different jurisdictional levels and providing the legislative power as well as the revenue sovereignty to the sub-national levels. This will allow all constitutional matters as well as decisions regarding who is responsible for what provision and revenues assignment arrangements should be implemented.

Jurisdictional structure

The literature on public goods has demonstrated that services should be provided and the costs shared are in line with the preferences of the residents within the relevant benefit region. Thus, local public goods should be provided, and more efficiently supplied by lower level jurisdictions, consequently would lead to the concept of optimum community.

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The design by Musgrave (1989) of the community size, states that in an optimal fiscal community the marginal savings per capita service costs should be equal to the marginal per capita crowding costs for the services subject only to spatial limitations of benefits. Therefore according to this model the multi fiscal units are different in their size and regional scope; consequently some goods are national while others are typically local.

The researcher has so far assumed that the benefits of a particular public goods and services are best provided by local subunits and are limited to the space of the providing jurisdiction, and therefore the benefits accruing from such provisions are confined within the space of the providing jurisdiction. But this assertion is not entirely true because of the spill over effect mentioned above because in the real world the benefits and costs are overlapped between jurisdictions which could result in insufficient provision of public goods and services but one that can be corrected by central government's grant.

Mobility of Citizens

Citizens make their political decisions within the jurisdiction in which they live. A political jurisdiction is a defined area in which individual make collective choice regarding publicly provided services. In an ideal situation market mechanism should reveal preferences for public goods but if this fails political process such as democratic voting should reveal consumers' preferences for public goods and define fiscal resources for service delivery. In this situation only citizens of that jurisdiction can participate in the election, which are affected by the provision of local public goods and share the cost together of providing those goods and services.

Tiebout (1956) substantiated this notion of public goods provision by developing a community model, which stated that expenditure and taxes are quite differentiated among local political jurisdictions and that a quasi-market process can solve the public goods problem for particular jurisdiction. The model assumes that all citizens are fully mobile within the communities and that they have full information about the budgets of nearby or alternative jurisdiction. Tiebout (1956) has this to say: "spatial mobility provides the local public goods counterpart to the private market's shopping trip--- just as the consumer may be visualized as a walking to a private market place to buy his goods, the prices of which set, will place him in the position walking to a community where the prices (taxes) of community services are set" (p.422).

Invariably, individuals are 'voting with their feet' and would like to settle or resettle in the community that they can gain more from in taxes and public goods and services. The larger communities would try to dissuade people from coming into their communities and the smaller one would attempt to attract emigration into their communities. This competition amongst communities will result in efficient solution, which is noticed in perfect competition market. However, in the real world this model does provide a perfect description because of spill over problem emanating from inter-jurisdictions due to problem with choices of residential jurisdiction for voters. The spill over of costs and benefits can also produce assessment problems for local governments because of inaccurate reflection of the costs for services and taxes, which would make competition among local governments less effective.

Public Choice and Fiscal Policy

The demand for public goods and services Petersen and Mueller (1999) is not a function or determinant of the market, therefore, budgetary is determined within the political process for the preferences of public goods to be revealed. Consequently public choice can be made through elections where each individual has one vote in democratic society. Economists would argue that rationally, individual would choose the level of public goods supply, which exactly equalizes the marginal benefit of the public goods with the marginal cost (individual tax yields). In a democratic society, Osaghae (1996) the prevailing collective acceptable norm is majority voting or rule that has two forms: direct and representative democracy. It is also that majority rule will produce a unique political equilibrium at the most preferred median outcome. However this condition of prevailing equilibrium would not occur under certain circumstances, especially when two or more alternative issues exist.

This model of political behaviour enthuse Patersen and Mueller (1999) demonstrates that political parties attempt to maximize votes where as models of bureaucratic behaviour presume that bureaucrats tend to maximize the size of their budget. Interest groups also influence the political outcomes, seeking to increase the subsidies to their constituencies. Consequently, equilibrium is a dependent of bureaucrats, interest groups and politicians. Hence enthuse, Petersen and Mueller (1999) that the outcome will not be efficient but however voting is a second best solution for the preferences revelation of public goods in a democratic society. Decentralization will strengthen citizens' participation and control of their financial institutions in the use of public goods. It will also strengthen politicians' responsibility and improves citizen's participation on budgetary decisions. The benefits accrues would be similar to the market pricing, which enables voters a proper evaluation of

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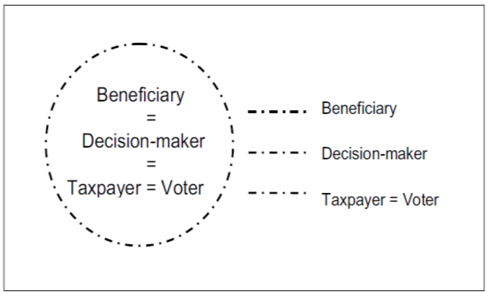
the public goods quality, hence, improve the political accountability under decentralization.

However, due to spill over effects the institutional congruency is more or less affected. (See diagram Fig 1 below) The taxpayers in other jurisdictions would have to contribute for the financing of the public goods. According to Petersen (2008) if the decisions made is by order than the principle of connectivity is weakened. The principle of congruity, that is where the legislative and revenues as well as administrative sovereignties are at one level, thus Blackart (2006) posits that institutional in-congruency and non-connectivity will harm fiscal responsibility of different governments levels. Therefore, to achieve fiscal decentralization the institutional settings should be taken into consideration.

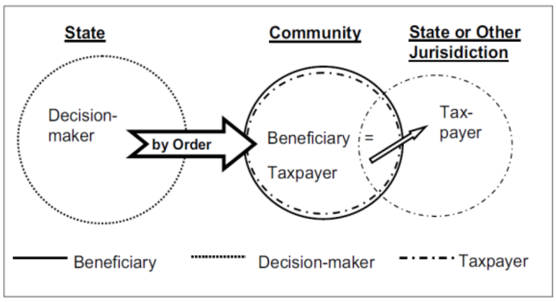
Figure 1: Institutional Congruency: Beneficiary, Decision-maker, Taxpayer, and Voter Coincide



Source: Blankart (2006).

Institutional Congruency (Blankart 2006, p.21)

Figure 2: Institutional In-congruency: and Order Management



Source: Blankart (2006).

Institutional Incongruency (Blankart 2006, p.30)

In conclusion, the provision of efficient public goods at local level and regional level must be implemented hand in hand with appropriate voting mechanisms allowing voters to vote for their interests. Thus the local authorities will get efficient incentives that would allow them to produce and provide adequate quantity and quality of public goods, which are being financed by local taxation. This is likely to increase public participation within the political process with the consequence of reducing corruption and increasing sense of responsibility at both local and regional levels.

Summary

This discussion implies that public goods could be efficient if different jurisdictional levels do supply the public goods with different capacities, steered by citizens' preferences. Therefore national government should provide national policy and provide an efficient level of national public goods for their constituencies. Thus the volume of public expenditures will be determined by the quantities of the public goods supplied, which are determined by the citizens' preferences. This result can only be achieved through a successful implementation of political and decentralization of a meaningful nature allowing elections to take place at different jurisdictional levels and providing the legislative power as well as the revenue sovereignty to the sub-national levels. This will allow all constitutional matters as well as decisions regarding who is responsible for what provision and revenues assignment arrangements should be implemented.

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