

Opinion **Reading**

The world's hunger for public goods

It is unclear whether today's states can – or will be allowed to – provide what we now demand

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Public goods are the building blocks of civilisation. Economic stability is itself a public good. So are security, science, a clean environment, trust, honest administration and free speech. The list could be far longer. This matters, because it is hard to secure adequate supply. The more global the public goods the more difficult it is. Ironically, the better we have become at supplying private goods and so the richer we are, the more complex the public goods we need. Humanity's efforts to meet that challenge could prove to be the defining story of the century.

Reading the Financial Times' series [Capitalism in Crisis](#) underlines this lesson. A central element of the debate is how to avoid extreme financial instability. Such instability is a public bad. Avoiding it is a public good. Those acting inside the market system have no incentive to supply the good or avoid the bad.

What, for those unfamiliar with this terminology, is a public good? In the jargon, a public good is “non-excludable” and “non-rivalrous”. Non-excludable means that one cannot prevent non-payers from enjoying benefits. Non-rivalrous means that one person's enjoyment is not at another person's expense. [National defence](#) is a classic public good. If a country is made safe from attack everybody benefits, including residents who make no contribution. Again, enjoyment of the benefits does not reduce that of others. Similarly, if an economy is stable, everybody has the benefit and nobody can be deprived of it.

Public goods are an example of what economists call “market failure”. The point is generalised in the language of “externalities” – consequences, either good or bad, not taken into account by decision-makers. In such cases, Adam Smith's invisible hand does not work as one might like. Some way needs to be found to shift behaviour; public goods usually involve some state provision; externalities usually involve a tax, a subsidy or some change in property rights. Free-market

economists, such as [Tyler Cowen of George Mason University](#), prefer the latter. But even that requires effective public action, if only via the apparatus of the law.

Economists have tended to assume that the [market economy](#) is inherently stable. If so, stability is supplied automatically. Unfortunately, this is not so. A free-market economy can expand credit without limit, at zero cost. Since money supply is simply the liability counterpart of private credit decisions, instability is baked in the economic cake. For this reason, [economic stability](#) is a public good we find quite hard to supply. The consequences of the repeated failure to do so can also be dire. Even the late Milton Friedman believed that government intervention, via the central bank, was needed to prevent long chains of banking collapses.

Much more can be said about the public-good aspects of financial and economic stability. But there is a deeper aspect of all this. The history of civilisation is a history of public goods. The more complex the civilisation the greater the number of public goods that needed to be provided. Ours is far and away the most complex civilisation humanity has ever developed. So its need for public goods – and goods with public goods aspects, such as education and health – is extraordinarily large. The institutions that have historically provided public goods are states. But it is unclear whether today's states can – or will be allowed to – provide the goods we now demand.

The story of public goods goes back to the very beginning of states, which were the result of the agricultural revolution. The latter made populations vulnerable to brigands – whom the late Mancur Olson called “roving bandits”. The answer was the “stationary bandit” – the state. It was not a perfect answer – answers almost never are. But it worked well enough to permit substantial increases in population. The state provided defence in return for taxation. The empires – Rome or China – enjoyed economies of scale in providing security. When Rome collapsed, security was privatised by local gangsters, at huge social cost: this we now call feudalism.

The [industrial revolution](#) expanded the activities of the state in innumerable ways. This was fundamentally because of the needs of the economy itself. Markets could not, on their own, provide an educated population or large-scale infrastructure, defend intellectual property, protect the environment and public health, and so on. Governments felt obliged – or delighted – to intervene, as suppliers and regulators, or subsidisers and taxers. In addition to this, the arrival of democracy

increased the demand for redistribution, partly in response to the insecurity of workers. For all these reasons, the modern state, vastly more potent than any that existed before, has exploded in the range and scale of its activities. Will this be reversed? No. Does it work well? That is a good question.

Yet consider where we are now. The impact of humanity is, like the economy, increasingly global. Economic stability is a global public good. So, in the [era of nuclear weapons](#), is security. So, in important respects, are control of organised crime, counterfeiting, piracy and, above all, pollution. So, even, is the supply of education or health. What happens anywhere affects everybody – and increasingly so. Unless there is a global economic collapse, an increasing number of the public goods demanded by our civilisation will be global or have global aspects.

Our states cannot supply them on their own. They need to co-operate. Traditionally, the least bad way of securing such co-operation is through some sort of leadership. The leader acts despite free riders. As a result, some global public goods have been adequately – if imperfectly – supplied. But as we move again into a multipolar era, the ability of any country to supply such leadership will be limited. Even in the unipolar days, it only worked where the hegemon wanted to provide the particular public good in question.

I started with economic stability, because the big surprise of the past few years is just how difficult it has proved to provide even this. The point I finish with is far broader. Ours is an ever more global civilisation that demands the provision of a wide range of public goods. The states on which humanity depends to provide these goods, from security to management of climate, are unpopular, overstretched and at odds. We need to think about how to manage such a world. It is going to take extraordinary creativity.

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