

Public Goods, Sustainable Development and the Contribution of Business

“This book admirably serves the purpose of framing and shaping the public and commercial discourse on both’s use of public goods. It provides a uniquely accessible understanding of how current use and costing needs to change to strike the best approach to balancing economic vitality today while protecting future generations and preserving our planet’s resources.”

—**Jerome Katz, Brockhaus Chair of Entrepreneurship, Chaifetz School of Business, Saint Louis University**

“The pandemic that washed over the globe in 2020 demonstrated that the provision of public goods is still central to civilized societies. Businesses have a share in this, and their contribution is essential to achieving sustainable development. This book provides a grounded and topical approach to understanding how business can contribute to public goods and help achieve the vision for 2030.”

—**Jerry Davis Gilbert & Ruth Whitaker Professor of Management, Professor of Sociology, Michigan Ross School of Business**

“A very timely and unique perspective on how sustainability matters in the use of public goods by consumers and producers. I particularly appreciated the message that businesses have a social responsibility in the use (and abuse) of public goods.”

—**Jagdish N. Sheth, Charles H. Kellstadt Professor of Business, Goizueta Business School, Emory University**

“At last! A book that makes business a critical element of the conversation about sustainable development in a multi-institutional environment.”

—**R. Edward Freeman, University Professor, The Darden School, University of Virginia.**

“The themes of this book are all key contributors to attaining the Sustainable Development Goals. The book provides a holistic view on the link between public goods, sustainable development and the crucial contribution of business as well as a clear guidance on a way forward in addressing global challenges”.

—**Victor van Vuuren, Director Enterprises Department, International Labour Organisation, Geneva**

“There is an enormous gap between the macro-ambition of creating public goods and the micro-translation of this ambition in relevant business strategies. This book clearly serves the purpose of that translation, not in the least by showing how the SDG agenda of the United Nations creates a platform for this endeavor. We need to step up the pace.”

—**Rob van Tulder, Professor of International Business-Society Management at Rotterdam School of Management, Erasmus University**

Public Goods, Sustainable Development and the Contribution of Business

By

Roland Bardy, Arthur Rubens,
Raymond Saner and Lichia Yiu

Cambridge
Scholars
Publishing



Public Goods, Sustainable Development and the Contribution of Business

By Roland Bardy, Arthur Rubens, Raymond Saner and Lichia Yiu

This book first published 2021

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

Copyright © 2021 by Roland Bardy, Arthur Rubens, Raymond Saner
and Lichia Yiu

All rights for this book reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner.

ISBN (10): 1-5275-6310-3

ISBN (13): 978-1-5275-6310-0

TABLE OF CONTENTS

Foreword	xi
Preface	xiii
Introduction	1
Part 1: Accessing the Public Goods Phenomenon.....	7
Chapter 1	9
Three Basic Approaches	
1.1 The philosophical/societal approach	
1.2 The property rights approach	
1.3 The public finance approach	
Chapter 2	20
Policy Consequences Resulting from the Three Approaches	
Chapter 3	24
The Dilemma of Finding a Comprehensive “Operational” Definition	
3.1 The utility issue: Enabled versus potential utility	
3.2 “Commons”, “fully or not fully non-excludable” and “non-rivalrous”	
3.3 Pure and impure public goods, club goods, market failure and dilemmas	
3.4 Local – regional – global	
3.4.1 Local public goods and local authorities	
3.4.2 The regional scope and its practicality	
3.4.3 Regional and global public goods	
3.4.4 Presenting an exemplary debate: Is the Internet a public good?	
3.5. Intergenerational public goods	

Chapter 4	58
How Argumentations Shape the Path Away from Operability	
4.1 Misleading argumentations	
4.2 The “commonstock” dispute on governance: Who “owns” public goods?	
4.3 The dispute on appropriation and dis-appropriation	
4.4 Providers and users, free riders and corruption	
Chapter 5	73
Defining “Value”: Another Dilemma?	
5.1 Which value for which goods?	
5.2 Monetary and non-monetary value and value indicators	
5.3 The concept and measurement of externalities	
5.3.1 Contingent valuation	
5.3.2 Rent capitalization	
Chapter 6	91
Cost Considerations: A Path Towards an Operational Concept for Public Goods	
6.1 Cost types in public goods production, delivery and maintenance	
6.2 From cost and value to net benefits	
Part 2: Public Goods in Public Statistics	101
Chapter 7	102
Environmental and Social Resources in the System of National Accounts	
Chapter 8	108
Defining Social Capital	
8.1 The World Bank Social Capital Indicator and beyond: An output concept only?	
8.2 Social capital at local levels	
Chapter 9	115
Regional and Local Level Assessments	
9.1 Assessing a social resources stock	
9.2 Natural resources assessment	

Part 3: Public Goods and the Business Environment.....	125
Chapter 10	126
Private Sector Reporting on Sustainable Development	
10.1 The Global Reporting Initiative (GRI)	
10.2 Corporate sustainability and business performance	
Chapter 11	132
Corporate Policies on Business Responsibility	
11.1 The Davos Manifesto	
11.2 One major strategy: The circular economy	
11.3 Overcoming bygone antagonisms	
Chapter 12	141
Responsible Business Principles in Practice	
12.1 Conscious Capitalism	
12.2 The Triple Bottom Line	
Chapter 13	146
Multiple Forms of Capital and the Value Creation Process	
13.1 The overall stock of assets	
13.2 Achieving market returns and social returns	
Chapter 14	155
Businesses Using Public Goods	
14.1 Who pays for public goods usage?	
14.2 Public goods and corporate growth	
Chapter 15	159
Expanding the Concept of Economic Value Added to Measure Overall Business Performance	
15.1 The inward and the outward perspectives on business capital	
15.2 The constant capital rule	
15.3 Understanding value added	
15.4 Value versus cost in measuring natural and social resources	
Chapter 16	172
Industrial Policies to Attain Stakeholder Acceptance	

Part 4: Policies for Improving the Macro-Micro Linkage	175
Chapter 17	177
Objecting the Involvement of Business: Negative Narratives Only?	
17.1 Businesses “enclosing” the commons	
17.2 Public services procured by both the state and businesses	
Chapter 18	184
Formats of Business Involvement in Public Goods Provision	
18.1 From passive to active involvement of businesses in community affairs	
18.2 Frameworks for collective efforts	
18.3 Genuine provision of public goods by the private sector	
18.4 Practical advice from theory: General rules for uniting private and public actors	
18.5 The ineffective efforts to protect the human rights of fishermen	
18.6 On a more positive end: The Green Deal of the European Union	
18.7 The need for abstaining from ideology	
Chapter 19	206
The Business World and the SDGs of the UN 2030 Agenda	
19.1 Why human, social, economic and ecological sustainability are inseparable	
19.2 The need for coordination: Public-private partner-ships, social efficiency and social effectiveness	
19.3 The role of civil organizations (CSOs)	
19.4 Coordination and monitoring	
19.4.1 Enablers of global collective efforts: UNCTAD and WTO	
19.4.2 Food security: Controlling a global public good bottom up?	
19.4.3 Standard setting as a means of control on public goods provision	
19.5 Societal control: Revitalizing the social capital debate	
Chapter 20	235
Performance Control for Public Goods Provision through Monitoring the SDGs	
20.1 Assessing the local, national/regional and global impacts	
20.2 Multi-level control	
20.3 Attaching SDG control to business performance	

Conclusion.....	242
Businesses, Individuals and State Actors Collaborating for Public Goods Provision and Sustainable Development	
References	247
Index.....	299
About the Authors	315

FOREWORD

Our book, *Public Goods, Sustainable Development and the Contribution of Business*, speaks to the current and historical role of businesses and their contribution and connection to public goods and sustainable development. The ratiocination is that maintaining and expanding public goods is equal to promoting sustainable development.

The authors are aware that the topic of public goods has been researched from various perspectives for quite some time. There is a broad literature on dynamic theories of public goods, valuation and voting models, local, regional and global public goods, public inputs, public capital and infrastructure, club goods, fiscal competition and coordination, to name just the foremost. However, it appears that much of the research concentrates on restricted spheres of macroeconomic theory or on the role of “the state” in political science literature, but it is rarely connected to the meso- and micro-levels. This is an oversight since it is institutions and businesses that contribute the most to maintaining and expanding public goods. This book attempts to elaborate on that nexus.

While the book was written, the world has been consumed with the CoVID-19 pandemic. Like everybody living through this pandemic, the authors felt that the presence of CoVID-19 is very unique and potentially impacts everything one writes on any topic during this period. That includes the topic of public goods and sustainable development. However, we think that the main underlying issues remain the same: Societal advancement can only be achieved if all members of a society cooperate. The CoVID-19 pandemic has underlined how businesses and public entities have and must come together to not only protect the health of their populaces but also protect and restore the economic health of their nations. And these entities, public and private, must take – and some have taken – responsibility for those nations which need to be aided from outside in their efforts. But aside from CoVID-19, there are many other themes, events, and issues that relate to building a better future for mankind that remain an ongoing concern - a work in progress, which is the main interest of our book.

The authors hope, like anyone else, that after this pandemic people will better understand that the problems and the issues of our future survival, creating sustainable processes, fighting diseases, etc., will depend on the

world's businesses, public entities and third sector organizations working hand-in-hand. Working hand-in-hand must also continue and perhaps intensify with regard to all that is on the agenda for maintaining and expanding public goods, whether tangible ones like climate protection and oceanic and mineral resources or intangible ones like human rights and social cohesion. There are many interdependencies and interrelationships which are essential for the survival of mankind, and quite a few of them relate to public goods. Hence, accessing these multiple synergies will provide solutions to most of the challenges that the world is facing. This line of reasoning extends throughout our book as the reader will observe when going through its chapters. At the end of the book, in the Conclusion section, we also exhibit where we see a connection of the book's content with both the difficulties and opportunities that result from the current pandemic. Any further deepening lies beyond the scope of our book.

Mannheim, Germany; Naples, Florida; Geneva, Switzerland
February 2021

Roland Bardy, Arthur Rubens, Raymond Saner and Lichia Yiu

PREFACE

Conflicting means and common goals: The promotion of public goods and services

Public goods include the goods and services that are used by the members of a given nation or society and can be provided by both public entities as well as private sources. These goods and services are usually not for profit in nature and generally are available to all and don't exclude individuals from using them. Almost all nations of the world provide public goods and services to varying degrees. Although the public expects the ongoing provision of public goods such as roads, defense, the legal system, police, education, etc., it is during times of crisis when the need for, and the emphasis on, receiving these goods and services are greatest. In the last decade in particular, we have seen many events that have demanded a need for public services and goods as a result of natural disasters, such as hurricanes in the U.S, tsunamis in East Asia, earthquakes in Italy or manmade disasters such as the influx of migrants from war-torn regions and the great economic recession in 2007/2008 when almost all the nations of the world were impacted by the financial downturn. However, no event, albeit since the Second World War, has challenged nations greater to provide public goods and services than the coronavirus pandemic that has ravaged all nations of the world. The effects of this pandemic, compared to previous worldwide events (wars, diseases, etc.), are yet to be fully realized and understood; however, there is no doubt that the CoVID-19 pandemic will not only change how we work and live around the world, but will surely change how we provide public goods and services in the future.

The title of this preface is: "Conflicting means and common goals: The promotion of public goods and services." With this I wish to reflect the historical antagonism between the means employed by public and private entities and the increasing reality that although public and private entities address issues differently and might have a different mission, there are "common goals" in regard to the promotion of public goods and services. Beyond what has previously been said, there are several reasons that have contributed to the fact that public goods and services rank high on many countries' political agendas. To name a few reasons why the topic is gaining

prominence: The rise of deficit spending and expansionary monetary policy worldwide; the financial sector disconnecting from the real economy through interconnected global markets; persisting and increasing social inequalities among the world's nations; and the growth in environmental pollution around the world.

The efforts needed to address these issues, as well as future issues like climate change, water shortages, population growth, etc., will require a different socio-economic model that goes beyond market-oriented policies driven by special interests, but rather a model where policies reflect established linkages between the public and private sectors. These factors make the book *Public Goods, Sustainable Development and the Contribution of Business* a timely and welcome addition. This book offers a thorough interdisciplinary analysis of how public and private entities can work together on the delivery of public goods and services to meet the growing needs of society in all sectors. This book, which is based on a very structured theoretical reflection and supported by practical cases and examples, further provides a valuable inventory of the various reforms currently under way.

Historically, the study of business and economics has controversially discussed the arguments for or against non-market approaches to any economic activity, especially in the delivery of public goods. One of the reasons for this controversy stems from the fact that many business and economic practices cannot be reduced to a simplistic contrast between market and public goods. Similarly, a dichotomous contrast between individual private activity and collective public activity is equally simplistic. Business activities are delivered in a variety of forms, ranging from social operational patterns to the establishment of efficient markets. Therefore, any delimitation of the field of economics and business activities deserves special attention. While for some, any social fact can be analyzed by economic science, for others this discipline has a limited scope. For the former, economics is a discipline like physics, and their normative implications have to be strictly treated separately from its scientific analysis. For the others, economics remains a social science, and their normative implications have to be explicitly part of it. The authors of this book clearly and potently follow the latter perspective. However, this perspective can also lead to extreme positions.

One may designate economics and business activities as the science of social action par excellence; another may seek to demonstrate that it cannot recommend public policy in a neutral and independent way according to objective criteria. To resolve this, this book helps policy makers better understand the linkages and boundaries between goods and

services provided by the market and those provided by non-market mechanisms, such as the public and third sectors. This book, in its discussion of social collaboration models defines what and how much of those goods have to be provided by the different mechanisms.

In the early chapters of the book, the authors present the current definition of public goods and services which is based on the criteria of non-rivalry and non-exclusion, which on face value contrast with the principles of competition and prices being set by the supply and demand dynamics of the market. In that sense, they are justified as markets fail to fulfill such criteria. However, market failures must be considered when comparing these failures with the failures of politics which is needed in order to provide public goods and services. These failures are starkly present when looking at the countries that have and have not been successful in fighting CoVID-19. Also, in this pandemic we have seen the importance of public policies and the provision of public goods and services (this would be a leading indicator), while countries that have failed in this, have seen significant failures in market and economic conditions (a lagging indicator).

It is an established fact that one of the foremost objectives of collaboration in society is the maintenance and expansion of public goods. For this objective to be achieved, businesses, individuals and state actors must participate fully in communal efforts without preconditions. Hence, one of the necessary requirements is to stop the often-stated criticism against business by NGOs and not-for-profit entities which allude to the assumed focus of the private sector as being only concerned about their self-interest. While it is assumed that many individuals act in self-interest, this pursuit of self-interest can work advantageously in the delivery of public goods and services, which ultimately promote sustainable development. Giving an example, this book highlights the importance of economic criteria favoring cost-benefit analysis that make it possible to compare market and non-market solutions.

Public goods and services constitute the guarantee for each citizen, regardless of his/her social position, to have access to essential goods and services which serve the common interest. This is the reason why we generally speak of universal public goods and services, of which a clear illustration is the preservation of the natural environment. This is in fact both the expression of the general interest of the community and the means given by the state to constitute economic, social, territorial and cultural cohesion within its borders. The concept of public goods and services thus makes the link both between the individual and society, and between the economy and its social context.

Any modern study of business and economics contrasts the different tools that are available for correcting market failures, but mainstream textbooks still remain skeptical about the view that public goods and services are the best possible correction of market failures. However, there is a consensus on the need for individual actions, and that varied incentives can be used to change human behavior. This can certainly gain in relevance if it recognizes the value judgments on which conclusions are based. Moreover, theorists and practitioners should accept the fundamental role of public goods and services, as they provide essentials for citizens, who cannot make free choices as long as they are constrained by discrimination, lack of education, health and exclusion, as well as exposure to pollution. Society should ensure social cohesion and promote the feeling of belonging to a community. It has to find a balance between the private interest and the public good in adopting a policy which relies on the complementary functions of private and public goods and services. In order to be effective and balanced from the point of view of the territory and the management of common resources, such a policy has to be implemented both spatially and over time.

The boundaries of the public and the private spheres are tenuous, and there has never been an ethical foundation for separating these spheres. From that perspective, this book highlights the growing changes in mission of many businesses and their renewed focus on the greater stakeholder models which move beyond the shareholders concept to include all members of society. If the provision of public goods and services is understood as a sort of safeguard of the common good, bringing together the two old economic traditions which are the positivist one and the moral one, the public goods concept will be the necessary social compact binder between what is generally confined either to the private or to the public sectors, and this may be able to reduce many of the social tensions which we observe all over.

This book and others are needed to continue the urgent discussion on the role of the business sector in the provision of public goods and services, as well as on the tangible value-added benefits that are gained by both the public and private entities alike. Also, all that is needed is that the perception of businesses as being only profit-seeking entities be revised as world leaders work collaboratively with private and public organizations to address the needed reforms that contribute to the long-term sustainability of our world.

Beat Bürgenmeier, Professor Emeritus at the University of Geneva

INTRODUCTION

The essence of sustainable development is the preservation and maintenance of public goods. This underlying theme comes directly from the intra- and intergenerational aspect of the Brundtland definition:

“meeting the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987).

Hence, whoever uses public goods is liable for their preservation, for their maintenance and, where they are underdeveloped, for their build-up and expansion. “Paying” for the usage of public goods is primarily derived from taxes and excise duties, and, more recently, by varied fees levied on assorted emissions. However, the magnitude of public goods usage is rarely measured on national, regional or local levels, let alone in monetary terms. Juxtaposed to this, money is the language of business. But when statistical indicators are set up to measure the progress of sustainable development, there are almost none that link the business level to the macro-sphere and to what is shown in national accounts.

The main objective of macro-sphere statistics, for example, of the national accounts, is to aid government authorities in their decision-making. But businesses and individuals also frequently base their decisions on information gleaned from national accounts. Since businesses are often reproached for using public goods for free, they might want to find data in the national accounts which demonstrate that the business sector earns a return on the capital invested in the public goods it uses. For this, businesses might need to know the value of those goods. From there, they could show that the taxes they pay and their other contributions to society are at a minimum commensurate with the cost of the public goods they use.

The book will give a brief explanation of the methodologies that have been developed to quantify the value of public goods, such as the contingent and the willingness to pay methods, rent-based assessments, cost-benefit-estimates and related techniques. They are often employed to value natural resources. However, the application of these valuation methods to social resources is relatively rare. Nevertheless, social resources are the major basis for a society to perform well and develop social/institutional resources, which is a major issue, especially in the

developing world and in a substantial number of regions of developed countries. Thus, measuring their value should be a concern to policy makers.

A large portion of the book focuses on the business perspective and the linkage between the business level and the regional/national levels of decision-making. While access to this “macro-micro-linkage” is easier when the phenomenon is studied within geographical boundaries, the linkage also applies to global public goods. Both on the local/regional/national and on the global levels, external effects arise which the book will cover from the perspective of externality costing. This connects to another perspective which is the link between the performance and the social responsibility of businesses and the sustainable development in their business environment (both social and ecological). One manifestation is the concept of multiple capitals as adopted by the International Integrated Reporting Council (IIRC), with financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital representing the accumulation of value that is the basis of an organization’s value creation. The capital concept and the value processes extend beyond the boundaries of organizations. The book will mark the impact of these processes on the well-being of a society and on the collective efforts of all its members to achieve sustainable development.

With the nexus between public goods and sustainable development comes the issue of how policies need to be coordinated on public goods in order to extract mutual benefits that would be more costly or impossible to achieve without mutual action. Coordination of this has been set in motion by the United Nations’ 2030 Agenda for Sustainable Development, since all the development goals, the SDGs, are systemically intertwined. However, as with the general topic of public goods, many of the respective efforts seem to be undertaken on the levels of national governments only. Only recently it has been recognized that to achieve sustainable development, all data on the agenda must be shared within its constituencies, i.e. citizens (represented by parliaments as well as civil society organizations), businesses, international organizations and the state: To that effect, the Division for Sustainable Development Goals in the United Nations’ Department of Economic and Social Affairs (UNDESA) has built a platform by the name of SDG Knowledge Platform: <https://sustainable.development.un.org>. All data, those generated by citizens as well as data produced by the private sector and local authorities, will be made available and accessible in a high-quality fashion that is timely, reliable and both aggregated and disaggregated.

Communal information is one element that is needed for communal efforts, the other is finance. But even more crucial is the format of how all the stakeholders collaborate. The issue of how businesses and “the state” cooperate in the field of public goods has been moving from academic considerations into the spotlight of a society that raises more and more questions about legitimacy and representativeness. The actors here are governments, businesses, civil society organizations and private consumers. It is both distributive mechanisms controlled by the state and market mechanisms controlled by businesses that coordinate economic activity. So, there is an increasing need to study how this coordination best serves the interests of all that are affected. This leads to the question, if it is the providers of goods who define if a good is public or private or if the status of a good is socially determined. The answer lies in what has been called the “triangle of publicness” (Kaul 2001), that is, complementing the basic concept of publicness in consumption with the concepts of publicness in decision-making and in distribution of benefits.

Connecting decision-making for (production and) distribution of public goods with the consideration of benefits coincides with the intent of our book, because businesses are represented at all three angles: They consume public goods, they generally have a say in decisions regarding public goods and they certainly reap benefits from public goods. We might call this “having a share”. Then there is the opposite of receiving benefits: Businesses, like all others who have a share, need to assume responsibilities. Partaking in decision-making is one of them, financing the build-up and the maintenance of public goods is one more. The book will explore this from various perspectives.

The other issue which this book emphasizes over the traditional view on public goods is their contribution to sustainable development. While there have always been practical outcomes, of which one good example is irrigation provision for farming, the topic is now being substantiated by the efforts to achieve far-reaching development goals like clean air, a stable climate, stable financial markets, progress on trade reforms and funding for green technologies: These can only be advanced if the providers of public goods are performing responsible sovereignty and if they partner successfully with private business. One aspect here is how to measure these contributions and if monetary valuations can be established. The book will cover this as well.

Another area that the authors of the book wish to pursue is to bridge the gap between what the public needs to know about the topic and the many publications on public goods and sustainable development written by specialists to present their research or by policy makers to exchange

their views. Business leaders, government officials or scholars in other fields of science can literally “get lost in the literature” when trying to get an overview. The book will hopefully help them to find their way to a better understanding. In all, the book strives to postulate a positive approach. The authors think that while it is necessary to criticize the way public goods are used and governed (e.g., the writings of David Bollier; see Bollier 2002), every attempt must be made to achieve progress in sustainable development through cooperation and coordination of the parties that offer and consume public goods.

Legal and economic mechanisms as well as societal control have to protect public goods from being abused or hijacked by special interests. They are vulnerable like any living and evolving organism and their integrity must be assured in order to enable them to serve the diverse needs of society. This may require new formats of managing and administering public goods, like comprehensive stakeholder participation in the “commonstock” (Anton 2000). Still, the indispensable cooperation between all actors will only succeed if the foundations of market and private property are firmly maintained. Whichever kind of participative systems may be devised, they must be consistent with human nature and its intellectual and affective capacities (Struhl 2014). This can be exemplified through the topic of climate change: In coping with climate change it may appear as common sense that it is the authority of the state to protect the public good of clean air and clean water by curtailing production that is pollution-intensive. Yet we live in a time where people request that they participate in the pertinent decisions, and it is not just those people who go to the streets to demonstrate. “People” would as well be the mining and the oil-producing communities as well as the members of the communities employed by these industries. On the other side there are also those businesses whose crops are damaged by carbon fallouts; these would even face a quandary, because their crop yields may get severely curbed if fertilizer input is curbed.

There will always be disagreements about the extent of regulation of a public good. Arriving at a common understanding, and, in the end, an agreement that satisfies all must be based on argumentation which respects human need in all its facets. On the economic need, we might find support from a quote by Adam Smith: He argued that state intervention is necessary for

erecting and maintaining those public institutions and those public works, which though they may be in the highest degree advantageous to a great society are, however, of such a nature that the profit could never repay the experience to any individual or small number of individuals, and which it,

therefore, cannot be expected that any individual or small number of individuals should erect or maintain (Smith 1981 [1776], p. 723).

So, economically, with regard to public goods, the private sector needs the state. Vice versa, the private sector's needs have to be accounted for: In a market economy public goods are not correctives to the sovereignty of private preference but simply a particular instantiation of it (Brennan and Lemansky 2006). As the book will show, this nexus not only provides a good understanding of how the private sector is involved in the domain of public goods but how this involvement also leads to fruitful outcomes in the ambit of policy making.

PART 1

ACCESSING THE PUBLIC GOODS PHENOMENON

Connecting public goods to sustainable development is a relatively new approach to the issue of public goods. But when looking back on the historical perspective of the topic, we can see that the evolution of the concept which built that nexus started centuries ago. Philosophers, principally in Europe, have built a notion that rests on the responsibilities of the *nation states*. Their role, in whichever form of government, ends up in representing all their citizens and in ensuring that fundamental human rights are respected. Besides this line of thinking there are others as well, as will be shown later. It is the opinion of the authors that, altogether, they do not fully reflect on how to manage and measure public goods. This may be called the “dilemma of definition” (discussed below). Also, the view on public goods has generally changed over time as it is, by nature, related to the view of the role of the state. Accordingly, there has been a debate on the role of the state and its functions for quite some time. For the purpose of this book, which aims to tie the development, the governance and the use of public goods to the interactions between the public and the private sector, three approaches to the phenomenon will be discussed: One is the philosophical/societal approach, one is the property rights/legal approach, and one is the public finance approach which led the way to characterizing public goods as being (anyone can use them) and allowing collective consumption (one person’s usage does not reduce that of another person). Before presenting the three approaches, the context will be laid out, which entails the perspective of public-private interaction.

It goes without saying that businesses are an integral part of society, and are not estranged from society where they reside. As per the social public goods, which at this point we shall roughly describe as the “glue of society” (all those intangible prerequisites which make a society subsist throughout generations), is the juxtaposition between business and society that has to a large extent been overcome. We see that trade unions and entrepreneurial associations work collaboratively in pursuit of a common good in most of the world, and that they use the social infrastructure aptly

and to the advantage of their members. One aspect of this is the long history of social reforms which has contributed to providing awareness that collaboration provides more benefits to all than confrontation. With natural public goods in light of the current debate on the degradation of the ecological environment, clarifications of the business context are a matter of high importance for policy makers, businesses and society at large. They must work to resolve conflicts that often arise between private and public interests with regard to natural public goods.

There are two main concerns that exhibit what is at stake and how to bridge the conflicts. Both are linked to properly conceptualizing what is a public good. The first question is about the properties of goods that are actually in the public domain and available for all to consume: “What are the factors that make them public goods? Is it that joint consumption and non-exclusiveness are sufficient conditions for establishing publicness – with the consequence of public authorities’ intervention?” The second question is: “Whether and to what extent publicness in consumption of a good is a predictor of state provision or may the good as well be provided by other actors?”¹ In responding to these questions, we need to understand the role of the various actors and the advantage each of them contributes to public goods provision. Publicness often is human-induced; it is a social construct. Hence the question arises, which forces and factors prompt goods to be placed in the public domain. The balance between private and public goods ultimately determines people’s well-being. As markets need public goods such as the rule of law and transparency of government for their efficient functioning, the provisioning of public goods is a matter of political relevance. This brings us to the first approach to be dealt with, which is the societal one, i.e., determining the notion of public goods from the responsibilities of society.

¹ This line of thought follows what has been exposed almost twenty years ago by Inge Kaul, veteran director at the United Nations Development Program, and the validity of which becomes visible in light of the present events around the climate debate (Kaul and Mendoza 2003).

CHAPTER 1

THREE BASIC APPROACHES

1.1 The philosophical/societal approach

To begin we go back to the Roman Republic where the Latin phrase *res publica* literally means “public affair or thing”, as opposed to *res privata*. There is a triple meaning in this term: (1) The republic has executive power as it needs to rule over all its citizens; (2) the republic sets up a publicly acceptable constitution; and (3) the objective behind the republic is *the public or common good* (*bonum commune*). In his excellent study *The State and the Citizen - Natural Law as a Public Good*, Peter Wivel (2007) argues that the Roman Republic was based on two concepts: first, consensus regarding the law, *iuris consensus*; and second, and this is a wider definition, a common utility, *utilitatis communio*. This concept is drawn from Cicero’s treatise, *De re publica* (which was written about 54–51 B.C.), and from which St. Augustine, the Father of the Church (who wrote *The City of God* in the years from 413 to 426), took the conviction that any society should be “the people’s concern”. He concurs with Cicero that only a state governed by the people can be called a state at all.

Before proceeding from St. Augustine to other European thinkers, a quick look to the Far East may additionally show that Confucianism’s non-individualist conception of what is “human” has a close nexus to the “common good” concept, since it fundamentally considers people to be members of social groups (the family, the clan, the political community) and not as isolated individuals. Confucianism defines the “good of the state” to be a specific advantage that is shared and beneficial for all (or most) members of a given community and that goes beyond the dichotomy between individualism and collectivism (Zhang 2010).

Confucius lived about 500 years before Cicero; he was almost a contemporary of the Greek philosophers Plato and Aristotle, whose thoughts are from where Cicero took his viewpoints. Plato imagined an ideal society where all goods were communal; Aristotle applied this to reality in life where a “community of goods” may be beneficial to a large extent, but it may also be beneficial if some of the goods are privatized and there is a cost for them (Tirole 2017). Bringing this to present times,

privatization and pricing will, for example, keep water from being wasted, keep carbon dioxide emissions low and allocate a limited resource like bandwidth to those operators who are able to use it in a way that benefits all (Tirole 2017, p. 5). Aristotle's main concern was about the relationship between private and public interest, and what he wrote on this would strikingly appeal to today's struggles in balancing the goals of the individual and the state:

For even if the end is the same for a single man and for a state, that of the state seems at all events something greater and more complete whether to attain or to preserve; though it is worthwhile to attain the end merely for one man, it is finer and more godlike to attain it for a nation or for city-states (Aristotle, *Nicomachean Ethics*).

Cicero's recommendations to his contemporaries, then, were aimed at putting this into practice. So, one might say that 2,500 years ago, in what then were the two power centers of the world, namely, the Roman and the Chinese empires, the issues of public interests and common goods were closely studied, and suggestions were made to put these concepts into practice.

The Greek philosophers' reflections and those of Cicero were adopted by St. Augustine, who applied the Ciceronian definition of *res publica* to his concept of the common good, and he connected this to deliberating what types of "provision" should be delivered by the state. However, while for the Roman philosopher's "utility" was the ultimate measuring stick for judging what should be procured by the state, St. Augustine petitioned for a higher rationality: The decisive argument, he wrote, would be "what the people hold dear" (Wivel 2007). It is consensus, then, that determines if a certain good should be publicly provided or not. With this reasoning, St. Augustine's thinking catapults into the most contemporary setting.

After St. Augustine, European history, in substance, was shaped through a power struggle between the growing authority of the Catholic Church and the mighty private interests of kings, dukes, counts and other chiefs of fiefdoms. Whatever one might think about the temporal control wielded by the Holy See and the Catholic Church as it evolved throughout the Middle Ages, it was the guardian of common interests. From a theoretical viewpoint, this development can be termed "unitarian", as it presumes that it is the best way of pursuing true needs and interests to the benefit of both the individual and the common good (Wivel 2007). The term was coined by the U.S. social/political philosopher Victoria Held

(Held 1970), who very fittingly described what was believed at the time (Simm 2011):

- (1) Common good is viewed as objective and normative. It is not an object of discussion and debate but rather a law of nature and provides a god-given goal for the society.
- (2) There is no fundamental opposition between the common good and the individual good. All individual goods are contained within a common good.
- (3) The knowledge of common good lies with good rulers. The only real threat for the common good arises when the rulers act in their own selfish interests.

The notion of the “good ruler” was questioned by the English philosopher Thomas Hobbes (1588–1679) who created a concept of “the state” as something which was independent from the structure of government. His political theories are presented in several books, of which the best known is *Leviathan* (1651). The name comes from a creature with the form of a sea serpent from Jewish belief whose omnipotence breaks all resistance, like that of the relentless ruler of a state. The only counterpart is Behemoth of the Earth, a symbol of God's power over nature, and from there Hobbes derived what he called the natural state. Human nature, he proposed, would be able to craft a state which, irrespective of the form of government, would be the best format to further human development. This would guarantee freedom for a society and its citizens, as well as security and protection of private ownership, which he called, alternately, the *common good* and the *public good*. This is what Hobbes called the *Laws of Nature*, and that

before social contracts and laws were formulated neither justice nor injustice, neither public goods nor public evils were more natural among human beings than they were among animals (Wivel 2007, p. 9).

The line of political thinkers in England that discussed the social contract and the public good went from Hobbes, to John Locke (1632–1704), to David Hume (1711–1776), who in turn influenced Adam Smith (1723–1790). Smith came to the concept of public good in his early writings on moral philosophy, which then inspired John Stuart Mill (1806–1873). Briefly, in Locke's opinion, the Laws of Nature could only be upheld in a society with a representative democracy, and it was in his time that the parliamentary form of government was established in England. So, for all his followers, the topic was no longer which system of government to

choose, rather their concern was civil action, i.e. politics that affect citizens. The reasoning was that in order to achieve common interests/the common good, you first must have choices – conscious moral choices. These choices create society’s laws that further the public good, including choices about the question of from where the public good is provisioned – i.e. which of it would be procured in the configuration of public goods and which of it would be procured by private parties. Thus, what is deemed to be a public good would be the outcome of social processes in which the catalyst is the pursuit of private interests by individuals that are compatible with the public interest. The optimal situation arises when a society is able to adjust these clashing interests. One might think that this is self-evident, but what we currently often see is private groups such as extreme militant environmentalists or greedy business leaders who take the public interest hostage and severely disturb societal processes that would lead to consensual decisions. A wider account on this will be presented in Chapter 17.

Contemporary social philosophers see the role of society and the common interest as the elements which are the most critical components in defining public goods. Subsequently, they connect the definition to social and community-based arrangements. Dupré (1994, p. 173) speaks of

goods proper to, and attainable only by the community, yet individually shared by its members.

Cahill (2005, p. 9) defines a public good to be

a solidaristic association of persons that is more than the good of individuals in the aggregate.

Hollenbach (2002, p. 81) describes the common good (singular) as

the good realized in the mutual relationships in and through which human beings achieve their well-being.

On another end, Deneulin and Townsend (2007, p. 20) argue

that the extent to which a good is perceived as “public” does not depend as much on its inherent characteristics as on prevailing social values within a given society about what should be provided by non-market mechanisms.

Sekera (2014), meanwhile, emphasizes that public goods need to be created through collective choice, paid for collectively and provided through non-market, public production without charge (or below cost) to recipients.

Sociologists' requests that public goods provision must stay in public hands fail to take into consideration that no government anywhere possesses the power, the means and the abilities to provide all the essentials of life to society and that collective action of all its members (including businesses) is required for ensuring its well-being. While the term "collective action" has formulations and theories in many areas of the social sciences, including psychology, sociology, anthropology, political science and economics, the best-known application relates to societal processes producing the common good, as reflected in Mancur Olson's perspective of the issue.

Olson (1965) holds that if a society/a group of people benefits from a public good, then this group, as it has a common interest, will take steps to either make sure that the good is provided (and not abused or deleted) or that it effectively produces a generalized benefit. Contrary to what was said above on private groups holding public interests' hostage, is a very positive assumption. Still, the problem of a mismatch between individual motives and collective outcomes will always persist. If one of the parties involved needs to be rewarded for contributing to the outcome, the others would have to accept and provide this inducement. If not, the question may arise if coercion needs to be exercised – mainly for making all parties share the burden of cost. As Olson puts it, the attitude generally is rational and self-advantageous, and therefore there will always be someone/some party that will seek to get the result for free: All will recognize that they are better off if the collective interest is realized, but some

will still not voluntarily act to realize that common or group interest (Olson 1965, pp. 14–15).

It is inherent in this logic of collective action that the process works differently depending on the size of a group. In a small group, when one member of the group refuses to pay its share, the others might withdraw from the effort entirely which would forfeit the collective good altogether. One good example is the decision in Germany to discontinue the production of atomic energy. All owners of power plants needed to adhere to the action because otherwise the compensations to be granted by the state would not have been paid. Or the issue might have ended up in one self-interested member of the group footing the bill for the whole group, as would be the case for wastewater treatment where one large production facility allowed a few smaller ones to discharge polluted water into its treatment plant. In a large group, Olson says, deficiencies in internal communication and coordination, as well as a lack of solidarity, will prevent this type of solution (Olson 1965, pp. 48–50).

Olson's line of reasoning has raised criticism with some of his opponents declaring that his idea of "convivial, expressive, affectionate and non-acquisitive behavior may work in the separate realm of leisure and consumption but not in business or in government" (Stretton and Orchard 1994, p. 68). It has also been shown that large groups may also be very effective in securing certain types of collective goods (Hardin 2015), because a large group often resolves itself into a constellation of smaller groups. As Russell Hardin observed, a group whose members number in the millions may nevertheless include someone who finds that the personal benefits of a collective good exceed its total cost (Crenson 1987, p. 230). Philanthropy would play a role here, and an example is the contemporary efforts in Australia and the U.S. to raise the quality of public schooling in programs such as the Florida-based initiative Enlighten Education (<https://www.enlighteneducation.com>). Another critique lies with Olson's supposition that coercion is a substitute for voluntary cooperation when governments cannot persuade their citizens to join in contributing to maintain a public good. Coercion, however, is notoriously ineffective for achieving consensus and would only succeed if it was supplemented by "habitual obedience" (Schauer 2015, p. 7). Habitual obedience, though, is not just complete subjugation; it can also be sensible for rational, self-interested people when it occurs within a framework of enduring social relationships. An example of this might be decision-making processes in the European Union where democratic nation states are habitually surrendering parts of their erstwhile autonomy *vis-à-vis* this international regime that provides and expands an array of public goods for its members (Hurrelmann, Schneider and Steffek 2007).

Although, there may be shortcomings in what Olson said about coercion and how group size influences collective goods, his contributions to the topic, together with the similar contemplations of Buchanan (1965), have led to explorations into the spectrum of goods that are not purely public, i.e., where benefits are partially excludable. Hence, we have a relation here to how business intervention can shape a public good: If the result of market intervention is that goods, whose benefits were received by a larger group (like a public swimming pool), thus become available to a smaller group through an exclusion mechanism, the effect may be a gain in allocative efficiency. This will be further dealt with in section 3.2.

1.2 The property rights approach

The philosophical/societal access to the phenomenon of public goods is linked, at least to some extent, with another origin of the concept, which is