

The Provision of Public Goods, and the Matter
of the Revelation of “True” Preferences: Two Views”

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Introduction

The two views which are agenda here are those of Amartya Sen and Lief Johansen. When I initially considered these two views, I thought of them as opposing views. However, I no longer consider this to be an entirely correct characterization of the two views in question. I now consider them to be (at least) somewhat tangential to each other. To Sen, “true” (or “correct”) revelation of preferences appears to be a non-problem. To Johansen, on the other hand, the matter of “correct” or “true” revelation (or concealment) of “actual” or “true” preferences is most decidedly a non problem. Thus, they both consider the question of true or correct revelation of preferences to be somewhat of a non-issue. But Johansen places rather more stress on this matter than does Sen. The concern of both (and especially of Johansen) is with public goods, and not simply with goods (or services) in general.

An Elaboration of Amartya Sen’s Position

To absorb the flavour of Sen’s position not only on the theme of this paper, but on much else besides, see Sen’s “Rational Fools: a Critique of the Behavioural Foundations of Economic Theory,” (Philosophy and Public Affairs, Vol. 6, 1976-7, pp. 87-109).

To be woven into any account of Sen’s position on the question of “true” revelation of preferences with respect to public goods, there should certainly, I believe there should be

some discussion, at least, of Sen's notion of what he calls "commitment" (that he enunciated in his paper on "Rational Fools"). And, for a convenient handle on Sen's concept of commitment, one should look at the rather gruesome example – gruesome because it centres on torture – that Sen offers. At any rate, here are the details of this example. If knowledge of torture merely makes you feel sick, then, as Sen puts it, it is merely a matter of "sympathy." If, on the other hand, you not only think that torture is wrong, but you are willing to do something to stop it, then this is an instance of commitment. But, getting much closer to what is really germane here, we see Sen writing that "one area in which the question of commitment is most important is that of so-called public goods" (Sen, op cit., p. 98). And, we would add, not only important, but highly relevant to present purposes, as well. Thus, Sen, "a lot of attention has been directed to the question of correct revelation of preferences" (op. cit., p.98). More specifically, Sen adds, the issue here is that it would seem to be in everybody's interest to understand the benefits he expects to receive from the public good or project in question: in other words, to "free ride" (ibid). We should mention the "ungodly cunning" (Sen's words) of mechanisms designed to deal with the free-rider problem; specifically, "rewards" which will provide people with a real incentive to reveal exactly (and correctly) their actual (or "true") willingness to pay for a public good or project.

Of course, hovering in the background here is an assumption (allegedly) relevant to a provision-of-public goods context, that an individual, when queried about the alleged value to him of a public good or project, always gives the answer which is calculated to maximize his personal gain. Then, Sen asks how good, really, is this assumption as a description of

actual behaviour? Sen's reply to this query, is that he doubts (his word) that in general it is a very valid assumption. At this juncture Sen calls to his aid Leif Johansen who does provide a decidedly strong supportive position. "Economic theory" Johansen insists, tends to suggest that people are honest only to the extent that they have economic incentives for being so. This is a homo economicus assumption which is far from being obviously true, and which needs confrontation with observable realities. In fact, a simple line of thought suggests that the assumption can hardly be true in its most extreme form..."(L. Johansen, "The theory of public goods: Misplaced Emphasis," Institute of Economics, University of Oslo, 1977).

Leif Johansen

Although Johansen is essentially on the side with Sen concerning the issue of correct revelation of preferences with respect to public goods, he manages to reach this side without any dalliances with the likes of commitment. Nor, for that matter, does he immerse himself in profundities – philosophical or otherwise – when he offers reasons for what he insists is the "unimportance" of the so-called problem of misrepresentation of preferences, or non-revelation of "true" preferences, with respect to public goods.

Still (writing in his paper on "The Theory of Public Goods: Misplaced Emphasis," Journal of Public Economics, 1977, pp. 147-152), Johansen concedes that "there is an incentive for everyone to pretend (falsely) not to have any high preference for the public good" (Johansen, op. cit., p. 147). Yet, at the same time, Johansen expresses the "feeling" that what he describes as the "present strong emphasis" on this matter of "non-revelation"

of “true” or actual preferences with respect to public goods is “somewhat misplaced” (*ibid.*). But precisely why does he “feel” this to be the case? The “main reason” for such “feeling” or thinking appears to be that he “does not know of many historical records or empirical evidence which show convincingly that the problem of correct revelation of concealment of preferences (or of same) has been of any practical significance (*ibid.*). His back-up for this statement is what he has observed of the relevant political processes involved; that is, decisions at various level of government, state, county and municipal. Furthermore, he points out that his scan has not been confined solely to government bodies, but also includes private clubs, small co-ops and “perhaps” even large families. He concedes, though, that in the case of such bodies or groups one can observe “distorted” representation of preferences (*op. cit.*, p. 148).

Johansen argues that if the hypotheses concerning the concealment of one’s actual preferences for public goods were correct, “then practically everyone – political friends as well as political foes was practicing the same art” (Johansen, *op. cit.*, *loc. cit.*). Therefore, Johansen concludes that, under such circumstances, “it is hard to believe that we should not get ample empirical evidence” (*op. cit.*, *loc. cit.*) of concealment of preferences with respect to public goods.

Then, Johansen adds the observation that there are, after all, a lot of public goods around – in fact “probably more than we would expect” on the bases of “free-rider” hypotheses (*ibid.*). Furthermore, he asserts, “there are also many groups and individuals who by no means appear to conceal their preferences” with respect to public goods (*ibid.*).

Johansen insists that if the hypothesis concerning concealment of preferences (for public

goods) were correct, then practically everyone involved in public affairs would be a practitioner of the art (of concealment) and such persons would probably really believe that practically everyone involved in public affairs was “practicing the same tricks.” Moreover, Johansen points out that many people like to reveal the misbehaviour of their adversaries and boast of tricks performed by themselves if they have been successful. Then, it is hard to believe, Johansen continues, “that we should not get ample empirical evidence if concealment of preferences were as important in practice as it seems to be in theory” (ibid., stress added).

Moreover, Johansen believes that “there is a need for a re-examination of the present trends in the theory of public goods” (ibid.).

“Economic theory,” Johansen continues, “in this as well as in some other fields tends to suggest that people are honest only to the extent that they have economic incentives for being so” (ibid.). We have already dealt with Johansen’s reaction to this assumption when we discussed Sen.

Then, Johansen offers his opinion that everyone would come to believe “that the system would produce very bad results and possibly come to a breakdown, if everybody concealed their preferences for public goods” (ibid.). Incidentally, I was once told by a Scandinavian former colleague of mine at UNB that Johansen was at one time chairman of the Communist Party of Norway.

Striking what could be viewed as a possibly less gloomy note, to the effect that if what he avers is true, “Everybody would understand that the system would produce very bad results and possibly come to a breakdown if everybody concealed their preferences for

public goods. Although concealment of preferences corresponds to a sort of non-cooperative equilibrium, and thus to individual rationality in the narrow sense, everybody would realize it generates a very inferior solution (Johansen, op. cit., p. 148). At this juncture, I would like to insert a bit of political history. The Norwegian Labour Party was the only democratic socialist party to join the Comintern (i.e., the old Communist International of the pre-World War II period) and remained in the Comintern until it was eventually expelled, after being accused by the Soviets of what a later generation might describe as a charge of “Titoism.”

But to return, now, to Johansen and, more specifically, to his account of what he believed to be a possible consequence of a widespread propensity to non-reveal true or correct preferences with respect to the provision of public goods. However, Johansen also believed that as regards the provision of public goods “the collective might be able to break out of that equilibrium with its widespread propensity to non-reveal actual preferences, which, of course he described as a “very inferior” solution” (ibid., emphasis added) and, instead, establish something like a co-operative equilibrium, “based on a more true representation of preferences,” all this, he continues, being the result of a joint “understanding” of the necessity (for) true representations of preferences for the sake of the long-run workability of the system (ibid.).

Johansen believes that the “clue,” as he calls it, to the unimportance of the misrepresentation of preferences lies “in the existence of at least two tiers in the decision-making system” (op. cit., p. 149). The first of these two tiers comprises the “ordinary members of society” who constitute the electorate. Johansen then proceeds to examine, separately, the question of the

revelation of preferences by the politicians, and secondly, the revelation of preferences by the “general public” (or the electorate). Here, note, that one must think of politicians representing not only certain constituencies thought of as certain geographic areas, but also as representing groups of people considered as constituting certain “interest groups” (presumably all sorts of interest groups and not only “economic” ones). Then, Johansen asks, “could a politician misrepresent his preferences on the decision-making body in order to reduce the cost share of the group which he represents?” (ibid.) Johansen’s reply to this query is that he believes “there are several reasons why the politicians will “usually” not do so” (ibid.).

The first reason that Johansen offers in reply to this query was along these lines:

“Preferences are not always clear “before the legislative process starts, the decision-making body (a legislature) is a living organism with exchanges of views, and attempts to persuade opponents. If one representative is in favour of certain amount of public expenditure, he may not feel confident that the others (or sufficiently many of them) are in favour of the same policy, so that he can withdraw from the issue and enjoy a position as a “free rider” (ibid.)”. “There is then an incentive for him to try to persuade others” (ibid.) “and in this process,” Johansen continues, “he [i.e. The politician] reveals, at least partly, his own preferences” (ibid.).

The next reason (offered by Johansen) why a politician will not try to mislead the electors about his preferences is described by Johansen as follows: “Suppose that a politician did try the trick of misrepresenting his preferences in the legislature in order to benefit as a free rider, and also assume that his electors have in fact high preferences for large amounts of

public goods. If his electors were very shrewd... , then they might understand the tactical reason of their representative” (ibid.). “However”, Johansen continues, “this would hardly be a stable situation” (ibid.). Then, continuing with his discussion of the same state of affairs, Johansen writes that “if not only this representative, but most of the other ones as well, misrepresent their preferences, then the outcome would be very bad. It is hard to believe that a politician could defend himself successfully (with) the background of such a result” (ibid., emphasis added).

Then, Johansen offers another, ...but “more favorable” (ibid.) example. Developing the details of this example, Johansen now assumes that some politicians “who favour large amounts of public goods” (ibid.) but also conceal their preferences with a successful result (ibid., emphasis added); i.e., “there are enough of other politicians who carry the proposals for large public expenditures, and also accept (the fact) that these supporters (will) have to shoulder a relatively large tax burden” (ibid.).

An interesting question is this: “which of the politicians will gain more support from the electorate, those who concealed their preferences or those who presented their preferences honestly” (ibid.)? But Johansen also points out that those politicians who concealed their actual preferences may have a secret agreement with certain groups of electors. And, these electors “might” vote for the politicians in question. Such electors “might” vote for the relevant politicians because they believe that these politicians are in fact going to “play the trick” (as Johansen put it) and of course continue to support these politicians when the “trick” has been played successfully. However, as Johansen also points out (ibid.), where there is a very large group of electors, this kind of tacit agreement “would rarely be feasible

in practice” (Johansen, op. cit., p. 150). Yet, he also says that if the election is an open one – that is, one with a real competition for votes, then those politicians who do, in fact, speak out openly in favour of large expenditures on public goods would in fact “probably” win the votes of those electors who do favour such large expenditures.

Now, it is entirely possible, as Johansen points out, that some politicians might speak for large expenditures on public goods, when (they) speak to the electors, yet, at the same time, conceal their preferences for such large expenditures in the legislature or decision-making body. Note, however, that Johansen also points out that the degree of openness that typically characterize debate centring on large expenditures (for the public goods), the kind of “two-faced” strategy just mentioned would, as Johansen observes, “hardly be profitable” (for the politicians involved) (ibid.). [But, I am not so certain about that.]

Johansen also looks at the case of the politician who is in fact in favour of large expenditures on public goods. This person will usually have to speak out about his position in this respect when he speaks to his electors during the actual election campaign (with some “tolerance” when it comes to the actual decision-making in the legislature).

Johansen, be it noted, also points out that the actual way in which decisions are made requires a very close examination and a very careful specification of the circumstances and conditions which have a bearing on the making of decisions in the legislature.

With this in mind (presumably) Johansen then discusses the “most favourable” case for a politician who tried to make a “gain” for the “group” he is normally identified with. Here, those who comprise the relevant group of individuals might be farmers, capitalists, labour (organized as well as unorganized).

To examine, now, in somewhat more detail, what Johansen has to say about the relationship between politicians and the electorate. Imagine a politician who actually tried the “trick” of misrepresenting his preferences in the legislature or in some other body or committee, in order to benefit as a “free rider,” as Johansen put it (Johansen, op. cit., p. 149). Still with Johansen, assume that this politician’s electors actually have strong preferences for large amounts of public goods. Now, if these electors were truly sophisticated, they might understand “the tactical reasons for the behaviour of their representative (Johansen, op. cit., p. 149, emphasis added). But, Johansen insists, this would hardly be a stable situation” (ibid.). That is, Johansen argues that if not only this representative, but most of the other ones as well, misrepresent their preferences, then the practical result would be “very bad” (Johansen, ibid.). However, Johansen outlines another and “more favourable example.” In this “more favourable” example, as Johansen describes it, we are asked to assume that “some politicians” who are in favour of large amounts of public goods conceal their preferences (but) with a “favourable” result (Johansen, ibid.). This so-called favourable result is described by Johansen as follows: “there are enough of other politicians who carry the proposals for large public expenditures through and also accept (the fact) that their supporters have to shoulder a relatively large tax burden (Johansen, ibid.). Finally Johansen poses what is surely the tantalizing question here: namely “which of the politicians will gain more support from the electorate, those who concealed their preferences or those who presented their preferences honestly?” (Johansen, ibid.)

Then, Johansen points out that “theoretically it is possible that those politicians who

concealed their preferences have a tacit agreement with some groups of electors” (op. cit., p. 149). Continuing with the same view, Johansen points out that “these electors might vote for the politicians (in question), knowing they are going to play the trick, and (p. 150) then...continue to support the same politicians, when the trick has been played successfully (ibid.).” However, Johansen also concedes that such tacit agreements with a sufficiently large body of electors would rarely be feasible in practice.

The most favourable situation for the politician who wishes “to make a gain” by concealing his preferences “is the case where a group (of electors) can be identified by criteria other than the preferences in question. What Johansen has in mind here is the case where members of the group have common interests over a broad range of issues” (ibid., emphasis added). Specifically, Johansen has in mind here groups comprising farmers, those consisting of workers, and groups consisting of capitalists. That is, such “interest groups may elect representatives who are known to support the interest group’s common interest. In this milieu where groups are identified by “objective” criteria. Johansen points out that in such a situation group preferences may quite likely not be correlated with “any other objective criteria.” And, in these situations arguments about the difficulty of pursuing the strategy of concealing the true preferences will come into full play” (Johansen, ibid., emphasis added).

Interestingly, Johansen reports that it is really difficult to find empirical evidence that does show the relevance of the revelation or non-revelation issue. Johansen says that the best examples in his native Norway are to be found in the case of public goods that require undertakings by more than one municipality (Johansen, ibid.). And, he reports that among

those who have actually observed such negotiations, there is a general impression that false pretensions play a larger part in decision-making than in cases which involve only one constituency or the entire nation (Johansen, ibid). However, Johansen also concedes that “representatives of a municipality in negotiating with other municipalities play down their interest in (the) joint undertaking, achieving a smaller share in the total cost” (Johansen, ibid). But Johansen also points out that this is an impression rather than documented fact (ibid). Johansen’s conclusion to his article becomes interesting when he says that as far as he is concerned, it seems that “the evidence is largely against the existence of the problem (of not revealing actual preferences with respect to the provision of public goods), although it may occupy some corners of the full space of different decision-making processes about public goods. Since the problem is “threatening to become the focal point of the theory of public goods, I think we ought to re-examine the matter before we continue further in the same direction” (Johansen, op. cit, pp. 151-2, emphasis added).

We have not given much specific attention to problems of the supply of public goods, and attendant expenditure issues, at the municipal level. Charles Tiebout has dealt with some of the pertinent issues in this area in his well-known article on “A Pure Theory of Local Expenditures,” (Journal of Political Economy, Vol. 64, 1956, pp. 416-424).

Some Concluding Comments

I must confess that I do shy away, a bit, from Amartya Sen’s apparent belief in the essential goodness of man.

As to Lief Johansen’s article on the theory of public goods, I am not wholly convinced by

all his judgments concerning the prevalence (or non-prevalence) of a propensity to non-reveal (or distort) actual preferences with respect to the provision of public goods.

References

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