

PUBLIC GOODS AND SUBSCRIPTION TV: CORRECTION OF THE RECORD

PAUL A. SAMUELSON
Massachusetts Institute of Technology

“The Heart has reasons that Reason will never know.” Pascal
“So do the viscera.” Freud

HAVING been extended the courtesy of commenting on the interpretation¹ of my writing² on the theory of public goods and subscription television, I shall be candid and terse. My remarks have been scandalously misinterpreted. However, my job here is not to pontificate on the mores of scholarship but to try to correct the record.

The reader of this paper could be pardoned for thinking that I have opposed subscription television. Upon reading my paper, he will be surprised to learn that I expressed no opinion on the merits of commercial television versus subscription television. What I did do was point out that the essence of the public-good phenomenon was not intrinsically tied up with the inability to “exclude” consumers from some common service; that even if a subscription TV service could find a descrambler that would enable such exclusion to take place technically, we should still be faced with an instance of intrinsic increasing returns and that in all such cases there is an element of the public-good dilemma. Specifically, I pointed out that departing from the consumption pattern consistent with price equals marginal cost—in this case, essentially zero price—could be proved to lead to a non-Pareto-optimal state of the world. This means that there will necessarily exist (but not necessarily be “socially feasible”) an infinity of other configurations that make *everybody* better off; and this means that such a configuration cannot represent a maximum of a Bergson social welfare function.

A competent student of modern welfare economics must know how to use

¹ Minasian, Television Pricing and the Theory of Public Goods, 7 J. Law & Econ. 71 (1964).

² Samuelson, Aspects of Public Expenditure Theories, 40 Rev. Econ. & Stat. 332 (1958). Earlier papers were The Pure Theory of Public Expenditure, 36 Rev. Econ. & Stat. 387 (1954) and Diagrammatic Exposition of a Theory of Public Expenditure, 37 Rev. Econ. & Stat. 350 (1955). This is in the tradition of earlier writings by Wicksell, Lindahl, Howard R. Bowen, and various continental writers. Cf. Musgrave, The Theory of Public Finance (1959) for discussion and references.

logic. He must be able to make boring distinctions between a necessary condition, several necessary conditions, a set of sufficient conditions, another such set, and a set of necessary and sufficient conditions. I stated that a necessary condition for Pareto-optimality would be violated under subscription TV, which is in contrast to what would happen under *laissez faire* in a private-good world subject to constant-returns-to-scale, absence of uncertainty, institutional monopoly, etc. Since *laissez faire* does not provide, outside of these last situations, an algorithm for achieving the efficient allocation of resources, I made a plea that economists study the merits of various new and old algorithms.

Only one who confuses a necessary condition with a set of sufficient conditions could read into my argument the absurd pattern: Since subscription TV violates $P = MC$ and commercial TV [allegedly] does not, the former should be prohibited.

Only one who confuses one necessary condition with a set of necessary conditions could attribute to me the absurd pattern: If $P = \text{short-run } MC$, there is no need for long-run considerations concerning the amount of indivisible resources to be allocated to an activity to take into account the opportunity cost of those resources in alternative uses. Why did not the commentator quote and understand my paragraph

There is a related significant point that needs stressing. It is not enough in the decreasing cost case to come closer to marginal cost pricing in the Lerner-Lange manner, making up the deficits by general taxation. As soon as decreasing cost and diversity of product appear, we have the difficult non-local "total conditions" to determine what finite mix of product is optimal. This involves a terrible social computation problem: we must scan the almost infinite number of possible products and select the best configuration; we cannot feel our way to the optimum but must make judgment at a distance to determine the *optimum optimorum*.³

Only one who misunderstands the relevance of Pareto-optimality when important feasibility conditions make it impossible to achieve ideal lump-sum redistributed taxes and impossible to achieve the various other stringent conditions could attribute to me the pattern of illogic: *The* (!) Pareto-optimal situation is better than any non-Pareto-optimal situation. Why did not the commentator quote and understand my paragraph

Having called attention to the nature of the difficulty, I do not wish to be too pessimistic. After all, the world's work does somehow get done. And to say that market mechanisms are non-optimal, and that there are difficulties with most political decision processes, does not imply that we can never find new mechanisms of a better sort.⁴

³ Aspects of Public Expenditure Theories, 40 Rev. Econ. & Stat. 336 (1958).

⁴ *Id.* at 334.

There are dozens of specific passages one might comment on, but the point has been made. What is especially regretful is that some of the arguments the author appears to be making are deducible from the general theory of public goods and modern welfare economics; but the good and the bad have been all jumbled together.

The final question is, Why all this? Is it because, despite all denials, Chicago is not so much a place as a state of mind? Is it because of the fear that finding an element of the public-good problem in an area is prone to deliver it over to the totalitarian state and take it away from the free market? The line between conviction and paranoia is a fine line.

Let the record be clear. The merits or demerits of subscription TV cannot be settled by an appeal to abstract reasoning or principles. Imperfections of one arrangement must be weighed against imperfections of another. Value judgments must enter into the final resolution: one category of citizens stand probably to gain, and one to lose; there is no feasible mechanism by which the gainers can efficiently compensate the losers; nor is there a presumption that they ought to compensate if they could, or ought not to either. In decreasing-cost situations, and areas generally that have in them a significant element of the public-good problem, there is no valid theorem that restrictions on entry are *necessarily* bad (although there is such a valid theorem in certain constant-returns-to-scale models of private goods). So, pragmatically all such cases have to be studied and resolved on their complicated and controversial merits and demerits. One cannot avoid the difficult problem of deciding whether a particular man is a murderer by posing the problem, "Does he carry the (unique) name of the man who did commit the murder?" No more can one decide what market or social mechanisms should be used for an activity by *first* deciding whether it is a private or is a public good. Instead, in terms of how important are its various features (externalities or lack of same, etc.), society decides what degree of market autonomy or public decision-making shall be applied to it. Only a bigoted devotee of *laissez faire* will find the theory of public goods, properly understood, subversive.