



INTERVENTIONISM IN REAL ECONOMY (I)

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Rezumat

Intervenționismul este cunoscut ca un „rău necesar” în dezvoltarea economică sau socială, dar poate căpăta noi dimensiuni în contextul actualei crize financiare și economice. În acest context, studiul are drept scop prezentarea unor concepte mai mult sau mai puțin arhicunoscute de specialiști, dar care în prezent ar trebui redefinite.

Principala valoare adăugată de natură conceptuală a studiului este aceea a încercării de redefinire a eficienței intervenției și rolului statului în economie și societate. În acest cadru, după prezentarea principalelor aspecte privind relația între guvernare și macroeconomie, sunt prezentate principalele probleme legate de eficiența economică, justiția socială și dezvoltarea economico-socială, eșecul piețelor, externalități, bunuri publice, urmând ca în a doua parte a articolului să dezvoltăm principalele probleme legate de determinanții intervenției statului în contextul recesiunii economice și intensitatea intervenției statului în economie.

Abstract

Interventionism is known as a "necessary evil" in economic and social development, but may gain new dimensions in the current financial and economic crisis. In this context, the study aims at presenting concepts more or less the class of specialists, but today should be redefined. Value added of the conceptual nature of the study is to test the effectiveness of intervention and redefining the

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state role in economy and society. In this context, after presenting the main aspects of the relationship between governance and macroeconomics, are the main issues related to economic efficiency, social justice and economic and social development, market failure, public goods, and at its second part of the article to develop main determinants of state intervention issues in the context of economic recession and the intensity of state intervention in the economy.

Keywords: state intervention, externalities, public goods, economic efficiency.

JEL classification: G01, H10, H11, H21, H23.

The history of development shows that, under the conditions of limited resources, the free initiative and the competitive market are the essential factors of increasing the economic efficiency and the creators of social inequalities. Some inequalities are regarded as normal, while others are regarded as unjust and unacceptable.

In the liberal economies, the democratic states intervene to maintain a state of balance between the economic efficiency and the social justice, between the man-created environment and the requirements of the natural-human life, correcting any time it is necessary the failures of the free market in the allocation of the limited economic resources.

1. Macro economy and governance

At the scale of a national economy, the real individual phenomena and processes are integrated within a comprehensive economic circuit. This reflects the real interdependencies from the economic life and which generate *aggregate demand* and *aggregate offer*, *intermediary consumption* and *final consumption*, *income*, *consumption*, *savings and investments*, *general price level*, *budgetary*, *monetary*, *commercial surpluses or deficits*. Such hierarchized flows that are structured in a specific logic, allow the quantitative expression and the description of the way in which the overall economic system works, with its *inputs*, its *transformations* that take place, its intermediary and final *outputs*, with their interactions in time and space.

The essential characteristic of the contemporary world is the accelerated increasing of the interdependencies between the economic activities, both at the national and international-world level.

The problems at the macroeconomic level are multiple, the most important being:

- ensure the conditions to achieve an efficient allocation of the limited resources and correction of the failure of the competitive markets;
- achievement of a balanced economic growth based on the compatibility of the criteria of economic efficiency with the social-human and ecological criteria;
- the relation between the requirements of the general economic balance and the partial misbalances that may occur within the economy in the shape of inflation, unemployment etc;
- economic cyclicity in the determination of the causes that alternate expansion with recession and of the anti-cyclic policies;
- integration of the macro-economy within the world economy, within different economic organisations and within the international markets;
- programming and prognosis of the directions of economic and social development in terms of the evolution of the natural resources and of the technical and scientific progress, of the globalization of the problems raised by the increasing interdependency between the national economies, etc.;
- macroeconomic policies to correct the failure of the competitive markets and to solve the abnormal misbalances from the evolution of the economic and social life;
- substantiation of the economic aggregate principles and study of the relation between them, with the purpose to highlight rather stabile regularities and relations between them, such as, for instance, between the income and consumption, income and savings, income and investments, etc.;

The delimitation of the macroeconomic problems is a useful method to analyse and interpret the economic life starting from the individuality of the economic phenomena and processes and ending with their integration within the logic of the whole national economy. One can thus highlight the laws (principles) that explain the normal functionality of the national economy circuit and, on this basis, know the causes of the undesired misbalances that may affects the state of normality of the economic system.

The study of macro economy and the discovery of the laws that govern the normal functionality of the system, establish a theoretical basis for the analysis and interpretation of some problems such as: if an individual doesn't benefit of prosperity, what importance has the fact that the whole of the society is developed and prosperous; what satisfaction has a poor person if he/she knows others are rich; if someone is unemployed, the high unemployment rate gives no satisfaction, and then, what is the use of the general security if that individual is not safe, etc.

The study of macro economy also helps understanding the viability of an economic system not just function of what it has accomplished well for the individual and the society by applying analysis and synthesis to study the economic system, both concerning the economy of the individual consumers, companies and individual industries, and concerning the administration of the aggregated demand and offer.

The public administration fulfils an important role in all countries, in different proportions and in concretely-historical conditions. Beyond the ideological and political exaggerations that have to be eluded, in the modern epoch the state, through its institutions and mechanisms in which it is involved, influences in a decisive manner the economy, at the macroeconomic, mezzo-economic and microeconomic level, as well as the varied relations of interdependency with other national economies, within the processes of globalization of the economic life, of universalization of the development and of control of the high risks which the evolution of the natural-human and social life brings about.

The causes of state's involvement in the economic life are multiple and they are in a direct connection with the evolution of the production factors, with the technical and scientific progress, with the higher complexity of the economy and of its externalities, with the social, cultural, political, military, ecologic aspects, with the risks generated by the national, international and global poverty and pollution.

The democratic state accomplishes its role through a system of economic, monetary, fiscal, currency norms, principles, instruments and levers, as well through the civil society. Within this context, the economic policy has hierarchized its goals in relation with the levels of economic aggregation, the premises and terminal purpose being the general interest of the nation in a specific time horizon.

Various types of economic policies are elaborated and accomplished function of a variety of criteria. Among these policies are general policies, local policies, monetary-financial, budgetary-fiscal-currency policies, macroeconomic programming policies, occupational policies, anti-cyclic policies, commercial policies, policies of economic and social cohesion etc.

2. Macroeconomic efficiency, social justice and development¹

Efficiency, in general, the economic efficiency, particularly, presumes comparing the results with the efforts at a particular moment and in dynamics. According to the practice of aggregation from the national accounting, the results are expressed a value of production (added value or level of the aggregated macroeconomic indicators) and the efforts are expressed as the value of the resources attracted and used. According to a first approximation, efficiency depends on the value evaluation of these components. Hence, the efficiency of any economic-social process can change function of the modification in evaluation, which are, in turn, the result of changing preferences of the way in which the utilities we need depend on one another, support themselves mutually etc.

This means that, by an adequate value modification of the input or output elements of a process, it happens that a thing is not as efficient as not to be able to be made inefficient, or as inefficient as not to be able to be made efficient.

The *relative efficiency* of the resulting production is, therefore, the expression of the ratio between the demand and offer on inputs, which influence the price of resources and the expression of the ratio between the demand and offer of the created goods which determine the value of the obtained production.

All that people appreciate as utility modifies their relation towards the other things, less priced, which will change continuously their relative efficiency. This means that efficiency is unavoidably, a term of evaluation. It depends first on the ratio existing between the value of the resulted production and value of the input resources. Efficiency is measured by the ratio of a value to another value, not by a physical ratio, which is why it depends on our evaluations of these values.

¹ According to the vision of the book by Michel Didier, *Economy. Rules of the game*. Bucharest, Humanitas, 1994.

Second, if we consider the sacrifice to obtain a good, under the conditions of limited resources, then an efficient economic activity is that one which is obtained with the lowest cost of the opportunity. Function of our desires, we specialise in the production of those goods for which we reckon to have the best comparative advantage, the lowest real cost of the choices we make. By specialization in areas that they want, people can make exchanges and obtain, by trading, the utilities they need.

In order to know what is efficient or inefficient, we must first answer the question: what does a thing of value represent to us? Once we have an answer to this question. We may determine the relative value of things and, function of this we can see which is their relative efficiency.

When the property rights are clear, stable and tradable, the insufficient resources tend to acquire the prices which reflect their relative scarcity. Under these conditions, the decisions that are taken aim at efficiency, using those prices as information. Efficiency is on the side of that activity which sacrifices something less valuable for the sake of having something more valuable, under conditions of limited resources, incertitude and risks of non-accomplishment the set goals.

The anticipated marginal costs are more important than the paid ones in making decisions, because the first ones reflect the comparative advantages of the alternative decisions that are to be taken.

The relative comparative advantage which the resources have on other resources, for some purposes, in relation to other purposes, is the one which sets the optimal level of engaging the resources in the choices we make.

Although the physical things are, certainly, relevant in appreciating the efficiency, by themselves they will never be able to determine the relative efficiency of the alternative processes. This is the result of a ratio between the value of the resulting production and the value of the used resources.

Because in our voluntary choices we sacrifice what is less valuable (resources, time included) for what is more valuable (the obtained production), the problem of efficiency appears through the relative comparative advantage of the costs of the alternatives to be followed, or the costs of opportunity. Hence, no person, group or nation can be more efficient than another in every activity. *There will always be*

comparative advantages in favour of some and comparative disadvantages concerning other, function of which every one will determine the direction to follow to obtain the desired efficiency. Specialisation and exchange determine a mutual dynamic balance between them, so that the participants in the economic life can maximize their satisfactions.

The efficiency or inefficiency of some activities are, essentially, disagreements on the relative weight of the different value evaluations. Hence, within a social system with clear property rights and with few restrictions to the commercial exchanges, the free prices that form help the people seeking comparative advantages to choose the most efficient way to use the limited resources, with alternative uses.

If we consider that the resources are limited, and the needs are unlimited, at a specific level of the efficiency, in order to increase the amount of a particular economic good, it is necessary to reduce the production of another economic good. *In a Paretian sense, at the level of a national economy, the economic activity has an optimal (maximal) efficiency when the production from one area can not be increased without decreasing the production in another area.* This means that the economic resources are used efficiently within any variant of combination located on a point at the border of the possibilities of production.

The activity of resources allocation is regarded as efficient when the resources are intended for the production of economic goods which society needs. Any allocation of rare resources for goods that are not required by the society expresses an inefficient activity, a waste of resources.

The activity of resources utilization is regarded as efficient when the production of the material goods and services was done at the lowest relative cost. *Under the conditions of given resources, with a certain level of specialization, as the amount of an economic good increases, the relative cost increases.* The trend of increasing cost of opportunity is also the result of the fact that the marginal production (additional amount of a good obtained by using an additional unit of a given economic resource) tends to decrease.

The activity of economic goods distribution is regarded as efficient if the producing companies assign these goods in relation with the desires and intentions of the consumers to spend the available income, at a certain price. Practically, *any activity of distributing goods which increases the wealth of some by decreasing*

the wealth of others is regarded as inefficient. At the same time, the economic activity of any kind that produces more with the same economic resources, while maintaining the quality of goods, means an increase efficiency and has beneficial effects on the participants to the social production.

At the level of the national economy, the economic efficiency expresses that state of the alternative choices to use limited resources, in which any increase of production of a good means the reduction of production from another good. *In the situation of efficient use of the limited resources, the prices increase to the level of the costs of opportunity, deterring the inefficient use of resources and their allocation for the uses in which the people invest the highest monetary value.*

This is why, to understand this process, it is essential to define, delimit and explain the interaction between the *economic efficiency* and *the social justice*, both at the level of the individual, and at the level of human collectivity. We will obviously approach this relation within the field of the economic life and activity.

In natural-human and social sense, efficiency is that element which allows the man and the human collectivity, in general, to exceed the limits of progress by the progress of the limits, to ensure a dynamic and profitable balance based on the compatibility of the economic criteria with the social-human and ecologic ones.

The economic efficiency is the final objective of all economies of any nature, it is the expression of the nationality of choices. The priority of this objective answers a double concern of the economic agents: to cope with the increased personal and collective needs to better the standard of living; and to cope, under the best circumstances, with imperfect competition under its various forms, levels of intensity and instruments of action, both at the national and international level, under the conditions of limited resources.

The efficiency and economy are practically synonymous, reflecting the effects with which the production factors are used, in their specific combination. We highlight this essential aspect and we draw your attention to what Paul Heyne shows: "Over the past years, in our society voices appeared suggesting that we treasure too much the efficiency, that we sometimes sacrifice too many precious objects to obtain an efficiency which is not worth its cost. Is this statement true? Anyone who thinks of it attentively will observe that, logically, there is something

strange in this critique of efficiency. Although the critics may have sound and important matters to raise, it can not be true that we put too much value on the efficiency "².

Economically, efficiency expresses, essentially, the quality of the economic activity to use rationally the limited production factors. It is a fundamental requirement for the economy and it should always guide the actions, economic-financial decisions of the economic agents. We understand efficiency as a term of evaluation, a value concept, measured through the ratio of the value of production to the value of the resources input into the process of transformation.

Efficiency can and must be analysed along a prolonged period because it represents, ultimately, the profound movement of the economic activity as a whole, which became the dominant trend after the seasonal, incidental moves have been eliminated. The preferred indicator to measure efficiency might be the net profit of the company related to the costs, taking into account constant prices, eliminating as much as possible the effect of the price variation.

The choice of the rate of net efficiency is one of the fundamental options of any activity, because by this option and by its implications on the large economic, budgetary, monetary and commercial balances, are expressed not just the economic options but also the social-political ones on a time horizon. The analysis of the western economies shows that over the past two decades, the options for a constantly high rate of efficiency had obviously favourable effects; however, they also lead, implicitly, to inflation as periodic factor of adjustment, so that such option under the conditions of monetary stability generates *stop and go*-type alternations.

If the global efficiency and the global investment are equal *ex post*, there is necessarily an identity between the accomplisher of efficiency and the investor. Within the modern monetary economies, the financial market and the financial institutions are meant to bring the, face to face, allowing the first to use the capitals in order to meet the financing needs of the latter. This principle leads to encouraging the increase of efficiency and, within the short-time regulation, of the economic growth, and determines the identification of a moderating action on consumption, to preserve the effort of investment. This

² Paul, Heyne, "The economic way of thinking", Bucharest, Didactic and Pedagogic Pres, 1991, p. 107.

aspect is more so important as the investments, by their nature, have the highest capacity to create jobs ensuring, at the same time, the further improvement of the production factors productivity. This way, the investments contribute to the reconciliation and revitalization of the productive function of the economic system.

Efficiency is the “visible hand” of the progress and has the mechanism built on some basic rules, as follows:

- to spend, you must first earn money, so you have what to spend;
- when you can spend the income without touching the patrimony, it means you are producing efficiently;
- if you don't spend the entire income, it means you can save and, therefore, increase your patrimony;
- when you spend more than your income, it means you are using your reserves, which means you decrease your patrimony;
- when you spend, borrowing for the future, it means you have to invest, not to consume now;
- when, based on the present savings, you increase the patrimony in the future, it means you invest to increase the productivity of the factors;
- a nation can not progress and develop unless it increases the productivity of the factors, particularly, of the work;
- if some consume without producing, it means that others consume less than they produce, which means that phenomena of redistribution occur in the society;
- having in view the resistance of the social structures, it is infinitely easier to distribute more than to distribute well, hence the way to increase efficiency during the transition process has both advantages and disadvantages.

The equity or social justice raises the problem of the equal opportunity for the generations that coexist and succeed in life. Efficiency and equity weigh so much, that any change of the normal ration between them, produced and will continue to produce big changes in the world. In the perspective of the sustainable development, efficiency reason must be compatible with the social justice, with the real hope for equal opportunity.

This happens because the people are so much different and similar, that under conditions of limited resources and unlimited needs, one can not live without efficiency, or without equity. The socio-economic system which will succeed to increase the economic

efficiency by redistributing the advantages and risks so as to ensure a better balance between the creating risk of the entrepreneur and the protecting guarantee of the employee, will mark the leap to the real liberty of the man living under the dictate of the limited means and under the sign of the incertitude. This socio-economic and politic system, as unfinished open play, evolves in balance, by reason and hope.

In the long run, any absolutization of the efficiency at the expense of the equity, or of the equity at the expense of the efficiency, has nod odds for success. A good, viable socio-economic system will be that one which produces as more as possible and as efficient as possible based on the liberty of the creating risk and which will ensure the most equitable distribution of the wealth produced on the basis of the social laws. Within this context, the specialists debate the “problem of the coexistence of wealth and poverty in the developed countries, problem which is still of current interest”³. If it is true that the solution to produce more and more efficiently is to *ensure the liberty of the creating risk* and if it is easier to redistribute more than to redistribute less, it extremely difficult to distribute or to redistribute properly. This happens just because if we would share equally, the largest inequalities would appear, against the human nature, which differentiate people; also, if we would share only according to dissimilarities, large inequities would also result against the same human nature, which takes into consideration what makes the people similar.

This is why, *if inequalities are part of our nature, equity also is part of our every day life*. Of course, we must not mistake inequalities for injustice, or the equity with the equal participation in sharing the results. The question is, what do the people accept easier, the equality or injustice, the equity or equality?

To a answer this question we need to take into consideration that the economic results reflect both the dissimilarities and inequities in the production of the economic results and the dissimilarities between people. We may say that society is dominated by inequities and hierarchies. Today this is the rule, and not the exception. Thus, the inequities in the production of the economic results are transposed

³ Lionel Stoleru, „Vaincre la pauvreté dans les pays riches”, Paris, Champs Flammarion, 1977.

into different incomes, own wealth, standard of living and life expectation.

If it is true that nobody can survive without a minimal income, but that it is possible to live without saving and without accumulating the smallest patrimony, it is then obvious that, overall, within the economic efficiency lie both the premises of progress and that of personal survival. Its lack may endanger not just the intergenerational equity, equal opportunity, but life itself! Therefore, the hope for equal opportunity only exists in the rational utilization of the limited resources.

Within this context, non-provision of the inequities underlying the economic results may yield big injustice, just as non-provision of the equity and equal opportunity may yield similarly big injustice. *We are confronted here with the basic principle of life, i.e. the impossibility to measure exactly the inequalities or injustice; even though they are realities of everyday life, they are the most complex phenomena which elude the attempts to give them a precise, mathematical content.* Hence, the danger that some get more than they deserve, while other less, so that the results can not be distributed equitably. When the balance tilts the socio-economic system turns over in the attempt to regain the balance between economic efficiency and social justice, between reason and hope, which will always be relative, always tilting one way or another. The only element which may balance comes from the unequal results which life produces, by increasing the efficiency of the human action and thus, of the individual and social wealth.

The *vindication of the social justice rests on the force and need for justice, which is organic.* Although equality and justice are interdependent, they must not be mistaken one for the other. For instance, there are shocking, scandalous inequities which produce injustice, but there also are equitable, reasonable inequalities which rest on justice. This is why the undiscerned assault of the inequities may yield injustice, exactly in the name of justice. Thus, the *seniority bonus*, as result of the *effect of career*, although seems to be an inequality, it is not and inequality, rather a motivating factor by the power of anticipation.

The justice of this inequality comes from the fact that the efficacy of the effect of career and the justice are on different registries of value, the first lies among the results of production, the second is a state of opinion related to the moral and social values of that period.

There is, thus, a double confrontation, between efficacy and justice: on the one hand, and between the different conceptions on justice, on the other hand. Analyzing the relation between the economic efficiency and the social justice and taking into account that efficiency passes through the market mechanisms, we may ask whether “we may speak of market morality or about the market of justice?”

At least until now, the best relative economic efficiency resulted from the competitive market. This is the best mechanism that the market economy has produced so far in the developed countries. At the same time, any market must have a certain morality, which means the regulations introduced by law regarding lawful and unlawful, through the mechanisms of the democratic state, the relation between reason and hope in the evolution of the natural-human and social life. **Reason is ensured through the market, and hope through society!**

Life shows that in the societies that proclaim the freedom of choice and action, the social contract is a compromise between two types of values: the values of the free market, which refer to goods; and the values of the society, the social values, which are regulated by law and are the object of human rights. For instance, according to the laws of the free market, it is normal that someone goes bankrupt, yielding therefore unemployment. But what is the guilt of an employee who became unemployed because the company was managed poorly? It is true that, according to market laws, bankruptcy is another facet, the ugly one, in relation to the nice one, which is the increase of efficiency and competitiveness.

If we were to imagine at the limit the human society (the socio-human system), there could be only two alternatives:

- a. either a socio-economic system in which all liberties have been suppressed;
- b. either a socio-economic system in which everything could be bought, including judgement, justice, faith, honour etc.

Obviously, such types of societies can not exist; in the first variant, the suppression of the liberty of choice and action is the same with annulling the content of the economic act. In the second situation, the absolutization of efficiency annuls the social equity and justice, because no society can subsist if not even the right to a decent life is granted, not to speak of the protection from the abuses of the economic rationality.

This is why, any viable socio-economic system must combine, in various degrees of balance, market liberty with law restrictions and with the adhesion to the fundamental traditions and values so that, on the background of an increased efficiency and competitiveness, the fundamental values of life are defended against the almighty money. If the economic goods are produced according to the principle of inequality and assigned unequally to people, the rights are distributed equally to all the people, their assignment should not depend on the personal income or effort.

Of course, it would be an error to think that the rights and value of the money are strangers. The inter-human relations are manifested as exchanges of goods against money, motivated by interest, but also as connections imposed by the law and by the rights, motivated by the concern for social equity and justice. Therefore, within the social contract, with the economy being an essential aspect of the social life, it is necessary to combine what the law allows with what motivates the particular interest within the context of the competitive market.

At first sight, the rule of the “invisible hand”, to give everyone what he/she deserves, seems to correspond an idea of justice, because the mechanism of competition gives everybody an opportunity within the freedom of choice and action. The rule *payment = contribution*, as first rule of a fair society is contested, the following objections being outstanding:

a) *there are several failures and imperfections of the competitive market*, which deviates the reality from the theoretic law of the rule *payment = contribution* (within the competition - shows J. K. Galbraith – it is not the best who wins, but the strongest);

b) *market competition assigns the incomes according to the rule payment = contribution and distributes encouragements and sanctions*. When an enterprise is slapped by an invisible hand and goes bankrupt, all employees are sanctioned, without being guilty, and they just sit without being able to act. Is this an injustice? It is. But this injustice is a product of the encouragement of those who display the freedom of the creating spirit and, therefore, is an injustice for the “good” of the competition for which some pay more. It was alleviated by the introduction of the unemployment benefit, which diminishes more the injustice as the efficiency of the economic acts is stronger.

However, when this injustice exceeds the level of bearability through efficiency, it tilts the scale in disfavour of the general equity, with serious consequences on the stability of the socio-economic system.

And yet, why doesn't the society set the rule of the general equity which to create real conditions for equal opportunity for the generations which coexist and succeed in life? *If the money and justice don't always get along well, if a minority of the population owns most of the wealth, then why don't they impose the rule of the general equality?*

There is the opinion that such a socio-economic system would produce in fact even much bigger inequalities. The price of this general inequality would be too high and it is not measured, it is not paid in units of justice, because then the society would win, but in terms of liberty and efficiency.

In this case, the introduction of the law of general equality would generate an incomparably higher price which would have to be paid by everyone. Therefore, from two imperfections, the evolution of the economic life focused on the competitive market based on inequalities and failure, on a high efficiency and competitiveness.

It is true that the free initiative and the market are creating inequalities, but they incite to accomplish the chance by creation and innovation as drives of the progress. The more limited is the liberty of action, the smaller is the capacity of creation and progress of the man; hence, the wealth growth slower or may even decrease, and the distributed wealth also decreases, which makes everybody to lose, and thus a new law is introduced: "loss-loss" instead of the rule "win ' win"⁴.

The state must intervene to maintain a balance between the economic efficacy, individual liberty and social justice, trying to correct the abnormal inequalities through social assistance and adequate redistributions.

There also is this opinion that the inequalities can not be corrected or alleviated; on the contrary, they deepen both at the national and at the international level due to the intervention in economy. The failures of the governmental management are much more serious than the failures of the competitive market.

One of the causes that might make redistribution inefficient would be the experience of the "leaking bucket", meaning that this process of correcting the social injustice causes the increase of the

⁴ See Stephen R. Covey, "Efficiency in seven steps (Primer of wisdom)", Bucharest, ALL Press, 1995.

administrative expenditure, perverted effects, frauds, incitation to slowing the *effort of creativity*, *determining the effect of exceeding the threshold of income* and the appearance of the *contagion effect*, etc. Therefore, redistribution would destroy much of the wealth without dismissing poverty.

Under these conditions, whatever the alternative, the socio-economic systems are increasingly stronger affected by a flawed efficiency to equity ratio. The will to live better and the aspiration towards justice and the safety of tomorrow remain as strong and lively in any period of evolution of life.

The efficiency to social justice ratio is conciliated not through solutions from the area of income redistribution, but from the area of increasing the income by a higher efficiency and competitiveness of the human action. Therefore, in order to progress on the way of social justice, the best solution, under the conditions of limited resources and diversified contribution is to increase the income, the wealth, accepting the market laws and the rule of the "invisible hand of society". The wage, as basic income on this planet, contains both considerations of economic efficiency, and of social justice.

Two fundamental forms manifested in the evolution of the efficiency to social justice ratio: the competitive economy from the developed countries which, by increasing the complexity or interdependencies, by increasing the areas and dimensions of incompatibility, tends towards centralization and global planning; the command economy and the global planning which tend towards decentralization and liberalization. From these two global trends result a direction of evolution: from a property without power to a property with power, with the force to invest, to construct and to create, to control and provide the goods necessary for life. The power of decision and control gain increasing importance within this world process; it is essential that the preferred solutions result from necessity, not from goodwill, because in opposition to this alternative, there is just one other alternative, that of disagreement, conflicts, hate and uncreative destruction.

The experience of Romania, as well as other experiences, shows that the management, starting from micro economy and ending with macro economy, needs an organic connection between efficiency, social justice, market and welfare. *An economy which breaks the relations between the effort put in and the distribution of the results is*

incompatible with the functioning of the stimulants corresponding to own interests, the result of its mechanism being wither the production for the sake of production, or the consumption without production which, in both cases, means the fight with the principle of the natural impossibility.

Economy management must take into account the fact that privatization and the observance of rights resulting from here is a necessary, but not sufficient condition of the institutional framework. The private owners, fully protected, must be compelled in terms of market behaviour not to expand and transform the right to private property into the right to formation and imposing the positions of market monopoly. The granting and observation of the property rights, as well as granting the free entry and exit from the market must be in the direct responsibility of the economic reform. The competitive market, separated by these parameters, is a form without content and, hence, it can not fulfil its function if increasing the efficiency or the function to monitor what and how to produce. Such a market will never bring the true economic miracle; on the contrary, it may even endanger the economic prosperity, the individual liberties and the domestic order. In Romania, monopoly becomes dangerously the second economic “nature”. Apparently, it is such a common fact that it is no question to monitor, control, regulate and re-regulate the areas in which these monopolies manifest themselves. There are entire areas from the real economy in which the end consumers are “tied” directly to a certain producer (the case of the electrical power of cooking gas consumption, for instance), which is either local, or national monopoly.

3. Markets failure. Externalities and public goods

Reality proves that there is no perfect market economy. A society in which all economy prices are correct at all times, bearing therefore correct information, never existed and will never exist. This means that the real market economy is a mixed economy based on imperfect market and competition. The struggle of the economic agents with the imperfections generated by the different free markets is a normal aspect of the struggle to assume the creating risk in the name of the individual interest and of welfare increase.

At the same time, the experience of development demonstrates that there also are imperfections generated by the direct intervention of the governments and which, essentially, may cause inefficient

allocations of the economic resources with adverse consequences on the creation and distribution of wealth.

The imperfections generated by the failure of the different competitive markets must be measured and compared with the imperfections created by the direct intervention of the public authorities. Thus, a real possibility is created for the governments to know the effect of the measures they want to introduce in the economy; before the authorities decide to correct the imperfections of the free markets they have to be absolutely sure that the regulations to be introduced do not worsen even more the situation.

Having in view that the desiderate of an economic and social safety for all the citizens, at any moment, will never come true, the loss of economic liberty and efficiency would be an unacceptable loss in the name of an ideal impossibly to be accomplished.⁵

For an economy based on the free play of the market forces to function properly, the public authorities must have a strong presence within the economic-social life of the collectivity, at least in order to solve the following problems: *guarantee the private property; create the real conditions so that the free exchange of goods and competition are observed; existence of a properly ordered and hierarchized code; norms which to govern the establishment, development, restructuring, bankruptcy and liquidation of the companies.*

By ensuring these premises, the public authorities aim to create a full set of normative acts which to guarantee a real and effective competition, to prevent the collaboration between producers in order to limit competition, to guarantee the private property and to ensure the real danger of bankruptcy.

Id we consider the special role played by the prices in the decision-making process, a main task of the authorities from a market economy is to create the conditions that the *prices reflect as much as possible the relative rarity of the different material goods and services*. Such a role of the prices might be prevented by the

⁵ According to Ilya Prigogine, Nobel Prize winner, «...a certain ethic responsibility is tied to a world of incertitude ... This allows us to understand better the value of the incertitude and to place our activities and decisions in the real world, not in an ideal one, of determinist nature, much too far away from the universe we are living in», in the preface to Orio Giarini and Walter R. Stahel's "Limits of certitude", Bucharest, Edimpress-Camro, 1996, p. 42.

existence of a monopoly of the producers, by using too high prices, under the conditions of too small productions.

The existence of the production monopolies makes the prices not to reflect *correctly the relative rarity*, which means that the functions of the free market can not be used to increase the economic efficiency. Such market imperfections are a reason for the state to intervene in the economy, either by creating the real conditions which to open the access to the establishment of new companies, or for the import of products, both with favourable consequences on the emergence and development of the real competition.

In the case of pollution, without the existence of adequate regulations, the market will probably generate much more adverse effects on the environment than an acceptable level. Hence, the authorities must introduce taxes and other regulations to make sure that the polluters pay for it or remove the results of their activity.

Taking into account that there is a clear limit of the total amount of pollution which society can and must accept and that through the authorities we are joint owners of a clean environment, there are the premises that the pollution permits are regarded as an economic good. Under these conditions, the authorities will have the competence to decide how to organise the sale of “pollution rights”.

Regarding the price of pollution, there are two ways to set it: a) set a tax for the polluters proportional to the size of pollution or, b) determine the size of total allowed pollution and then, establish a market for the issue and trading of the “pollution rights”.

When the labour price is wrong, a new market imperfection arises, the unemployment. The excess unemployment is caused by the action of some factors which originate in the aggregate demand or offer within the national economy.

According to J. M. Keynes, when the aggregate demand of material goods and services is insufficient, the sales drop, the investments go down and the need for labour force also depresses.

There also is the opinion that the lack of work places is caused by imposing large wages in the fields where the unions are properly organised. Therefore, when the labour force becomes very expensive, the companies will decide to use less labour force and more equipment to produce the goods, with consequences on the market price of the goods, a loss of the market share both in the country and abroad. This is why too large wages may determine a drop of production and hence a lower demand for labour force.

The authorities may correct market imperfections in terms of unemployment by actions on at least three directions.

The **first direction** presumes the reduction of the wage costs for the enterprises through direct subsidies for the labour force, which can generate an effort from the private firms sector to determine the strong budgetary limitations with consequences on the decrease of the interest for the economic problems determined by competition.

A **second direction** which the authorities can follow is to stimulate the aggregate demand in economy or the own demand for material goods and services by increasing the public spending or by reducing the direct and indirect taxes. Of course, in order to prevent even more serious arising from such intervention, the authorities must know when and how much to stimulate the economy.

The **third direction** in which the authorities can prevent the unemployment to exceed the natural rate is to remain passive, to refrain intervening through regulations, because the companies have learnt by themselves how to avoid such consequences. Market imperfections must be corrected in such a manner that, permanently, an imperfect market is compared with imperfect regulations.

At the level of the national economy, maintaining market imperfections at a given level is an expensive luxury. Under these circumstances, the public authority must have a correct understanding of the competitive economic relations and the courage and force to allow the interests of the whole community to have priority against the interests of the lobby groups.

As it is known, within the society there are several goods that can be sold on the market, or offered on the market: these are the pure public goods, which include: national defence, public order, streets lights, fire brigades, flood control, navigation channels, rivers, beaches, springs, production of laws etc.

The pure public goods have two fundamental characteristics.

a) Non-exclusiveness, impossibility or difficulty to exclude individuals from using them. For instance, any attempt to exclude some citizens from benefiting of streets lights, country defence, walking in the street etc., is actually impossible or very costly. When the cost of the means used to exclude someone from the consumption of public goods (fence building, installing surveillance equipment, guards, admission fees, etc.) is higher than the advantages that might be obtained, the non-exclusion decision wins.

b) Non-rivalry, lack of rivalry between users in terms of consumption of those goods, which means that each new consumer doesn't change the offer available for the others. If, for instance, the multitude of individuals benefiting of the consumption of public goods, is increased by another one individual or a whole group, this costs us nothing additionally. In this case, the marginal cost of the additional consumption of such goods is zero. Because there is no private property on these goods, or additional costs to use them, there is no rivalry between their beneficiaries.

Within the public sector, besides the pure public goods determined exclusively by their technical properties, there is another category of public goods determined, mainly, by market imperfections.

As shown before, market imperfections refer to those situations in which market mechanisms can no longer operate efficiently.

Thus, the performance of economic activities produce driving effects on the environment or on the third parties, but their value isn't reflected in the price of the sold outputs and thus affects the producer. These effects produced on the third parties, the environment included, are called externalities. They can be *negative*, when they affect the users by the net costs they cause, and *positive*, when they advantage the users by giving them net benefits.

<p>The net external costs and benefits caused by some economic activities are not included in the rationale of the production decisions, which means that, in relation to the social levels of production efficiency, we may have a too small production if the externalities materialize in net benefits, or a too big production, if the externalities materialize in net costs.</p>

Among the areas producing *positive externalities* are: the education, scientific research, technological development and other creative sectors. Because in relation with the direct effects obtained by the companies, the performance of these activities yield very high costs, but in relation with the global social effects of these costs they are much smaller, the government intervenes either by subsidies given to these activities, or incorporating them in the public sector where they are financed directly. The education and scientific research financed publicly or privately, are the sectors with the largest positive externalities in the society.

The most classical example of negative externalities is environmental pollution due to economic activities.

Although the real causes can not be explained directly and completely, the specialists consider that the evolution of mankind in its interaction with the limited resources and the incertitude of life produced two dramatic negative externalities: increasing impoverishment of a large share of world population and increasing pollution of our common environment.

As long as the prices and interest rates will not mirror the scarcity of resources and the opportunity costs, if the consumers will not have an equal access to the information on goods and markets, if the information of market opportunities and the production technology are not equally available to all producers then, the state has to intervene in order to remove these imperfections, either by making the information available or by lowering or removing the barriers to the free access to information for all stakeholders.

Having in view the extraordinary role of information within a modern market economy, there is an opinion that an *information market*, which the state supports but not control or subordinate, is a progress to society development⁶. Of course, there also is the idea that certain categories of information should better be a public good than a private good.

The imperfections in the field of information on the state of resources, given by the distortions due to prices, interest rates and exchange rates on different markets are linked to two major factors: *time lags* with which the price changing economic processes respond to the frictions or inertia of the large systems; *the actions of the monopolies or oligopolies* to maintain the prices at a high level, by decreasing the market offer.

Such situations that erode the positive functions of the competition and diminish the economic efficiency in an important sector of the economy are controlled by the authorities through public activities aiming to encourage or impose a competitive environment to those monopolies, or to replace the private monopolies by public enterprises.

Thus, measures are elaborated and enforced, for legal protection against the emergence of a single company, price control and profit

⁶ *The investigation of information market demand and offer, of the way in which the balance price is formed and of the re-balancing mechanisms of the two forces in time are, in our opinion, an important element for the economic theory and practice.*

rates, facility of penetration in a branch and on the market of new competing companies, removal of customs barriers etc.

The studies show that the differences of income between individuals and households come from the differences of wealth distribution and from the differences of professional training and competencies.

At the basis of the wealth lies the distribution of the inheritance rights and inheritance accumulation during the lifetime of people, while at the basis of wage distribution lies the initial distribution of the work capacity, competencies and efforts to acquire knowledge etc.

The competitive market, through its mechanisms, stresses the above differences by wealth accumulation, which generates social injustice. Under these circumstances, the problem is to determine first what kind of income and welfare distribution is preferred. Function of this choice, measures will be adopted to shift from the existing pattern of distribution to the preferred one. *The problem of choosing the preferred distribution is particularly complex and it needs a multi-criteria approach.*

Income redistribution can be done in two ways:

a) *a private system*, established voluntarily through charity, which has a random and relative character, and which can not be applied at large scales;

b) *a public system*, established by the state by the compulsory collection of incomes from taxpayers and their redistribution, through budgets, to those who need such money means.

The purpose on income redistribution through the governmental system is, among other, to eliminate the too high discrepancies between incomes. To this purpose, the authorities use the progressive taxation system function of the monthly or annual income and assign these funds as particular public goods, subsidies, social benefits, according to various criteria such as income size, family size, number of children etc. If the inequity of distribution is interpretable as a result of market shortcomings, then income redistribution appears as a particular case of public good. The reality shows that in all the developed countries worldwide, based on free markets, the competitive mechanisms coexist with the policy of equitable distribution of the incomes. From this coexistence emerges the test of competitive market acceptability within a democratic system.

Under these conditions, the exigencies of the economic system stability presume the maintenance of a high occupational rate, lower inflation, a high rate of saving and enticing to investments, increased rate of technical capital formation and, on this basis, the accomplishment of a sustainable economic growth. Putting in balance the macroeconomic effects of the free markets and the exigencies of the economic system stability, we observe the necessity to support the competitive mechanisms through, as efficient as possible, economic policies in order to restore the broken balances, however, without destroying, at the same time, the positive effects of the competitive markets.

A *private solution*, with individual or group character, preserves the nature of the competitive market relations, and express the free will and option of the private individuals and groups to act within the contractual market mechanisms.

The solution with individual character starts from own interests and uses own means. The solution with group character presumes an action of the individuals who cooperate within a specific group (corporation, partnership, mutual funds, non-profit organizations etc.), with the common purpose to increase the income by higher efficiencies, by ensuring freedom and by risk control under conditions of incertitude.

The public solution is required by the social, ecologic, economic, technological and managerial problems presumed by large scale projects. Such a process generates requirements for state involvement in social programs, provision of subsidies, support technological research programs etc. The economic organisations seek, in many situations, solutions outside the competitive market. They may associate to form cartels which enable them to regulate the production and maintain high prices, or they form lobby organisations to demand governmental support as subsidies or other forms of support. Hence, the economic organisations, in their quality of strong groups, put a lot of pressure to obtain advantages and regulations in favour of their activity.

The financing of activities from the state budget can not rely just on the voluntary contributions of the citizens, or on the incomes obtained by the sales of market goods and services. There are cases when the state is put into the situation to constraint its citizens to paying taxes and dues. Under these circumstances, the elementary, basic, goods

and services supplied by the government, such as defence, individual and property protection, law enforcement, public order, must be available to all citizens, with no exception. This means that not even the worst taxpayer can be excluded and, practically, it is not even possible, from the consumption of pure (perfect) public goods.

Within an economic system based on competitive markets, the enlargement and consolidation of the public sector is a choice based on economic, social-human and ecological reasons. These reasons become a filter, function of which the decisions and actions turn objective. Function of the cost-benefit balance, one may determine whether shifting an activity from the private sector to the public sector and vice versa is advantageous or not.

The analysis and interpretation of market failures, as well as of the alternative solutions, the substantiation of the decisions for the collective or public option are done using the *transaction costs* which the specialists say that actually represent the *costs with the functioning of the economic system*. According to Arrow, market shortcomings are a particular case arrived at the limit, where the transaction costs are so much high that the existence of the free market is no longer justified. The struggle against the increasing transaction costs make the companies integrate as many activities as possible, so as to prevent transactions that would entail a large volume of expenditure.

In parallel with this solution, the state may contribute directly to the reduction of the transaction costs by several regulations which compel to observing the legal stipulations, the determination and maintenance of the compulsory standards of measure and control, sanitary regulations, maintenance of currency stability etc., and indirectly by assuming economic activities and transforming them into a public economic sector.

The alternative of the public economic sector to market failures in several areas must be judged in terms of the comparative transaction costs. If the alternative of the production of public goods has, in certain situations, advantages compared to the competitive market, it doesn't mean that in this case, the governmental regulation and/or management of some sectors is completely free for the society. R. Coase draws the attention to the fact that in this case too, the choice has its costs and in certain situations there may be a "*governmental failure*" and "*free markets failure*". The analysis of the "*free markets failure*" to "*governmental failure*" ratio shows that the private sector produces material goods and services under competitive conditions,

while the public sector produces another kind of material goods and services. Hence, each economic sector, private or public, has a rational justification. The private sector achieves the highest efficiencies in spending limited resources, by the lowest cost of opportunity for most economic goods, because to the failure of the governmental management in that area. *The public sector is justified by the failure of the competitive markets and by the specificity of some goods which, under rational-managerial aspect, can only be supplied as public goods.* The demand and offer of public goods, in relation to the demand and offer of private goods, have some peculiarities:

- a) they do not take into consideration the criteria of economic efficiency which to limit the production of public goods;
- b) separation of the beneficiaries– materialized in the consumption of public goods – from the contribution to the costs of the offer of public goods;
- c) the public organisations draw their main incomes from outside the free prices mechanisms, while the private companies draw their income mainly from the evolution of prices on the competitive market;
- d) impossibility of quantifying the benefits of consuming public goods;
- e) output value materialized in public goods is represented within the system of national accounts by the cost of the inputs used to produce the public goods;
- f) the consumer of the public goods can not be excluded, and the producer of public goods is paid indirectly through taxes and dues to the state budget, while the consumer of private goods benefits of these goods only if their price has been paid or will be paid.

In the case of the public goods, because the consumer has no obligation to pay the producer the value of the bought good and because there is no market on which the producer may investigate consumer needs, the relations between the consumers and producers of public goods run through the public institutions, central and local authorities, etc.

According to Paul Samuelson, the demand for public goods is a pseudo-curve which takes into account the fact that each person has the goodwill to pay for the public good it needs. According to this conception, the pseudo-curve of the demand for public goods is the

marginal “goodwill” of the consumer to pay for the amounts of goods that it used⁷.

The political mechanisms stimulate the formation or articulation of the political demand, unlike the private goods, where the demand forms through the mechanisms of the competitive market.

The demand for public goods, under the influence of some factors, can increase, for no reason, beyond the actual possibilities to meet these demands by increasing the offer. These factors create flawed perceptions which make the demand for public goods to increase for no reason, beyond the necessities required to amend market shortcomings. Among these factors are some political ones:

a) *the promises of the politicians during the election period* to remove the adverse effects of the market and to adopt legislative solutions stimulate the demand for public goods beyond the actual responsibility to accomplish these promises, which creates a large gap between the demand and offer for public goods;

b) *bringing in front the short-term interests of the politicians* regarding the election advantages and neglecting the medium and long-term economic, socio-human and ecological interests regarding the elimination of market shortcomings, increase of the economic efficiency and boosting the economic growth, disturb the balance between the demand and offer of public goods;

c) *the dissociation between the beneficiaries of public goods and the payers for such goods* makes a group benefit from the results of a public project, while the costs are born by all tax payers, with serious consequences on the social justice and equity in the name of which the public sector has formed and developed, because a minority exploits the majority;

d) *the divergence between the interests of the majority and those of the minority* appears particularly in the countries with low levels of the income and it materializes in priority being given to the demands for income redistribution as demand for public goods, at the expense of the demands for saving and investments, which prevents the increase of investments and the achievement of a real economic growth;

e) the central and local administration body is one of the important factors which act towards increasing the demand for public goods

⁷ Representation after Aurel Iancu, “Basis of the economic policy theory”. ALL Press, Bucharest, 1998, p. 220.

beyond the actual possibilities for supply, under conditions of sure available resources.

Compared to the exaggerated demand for public goods, expression of the conjugated action of these factors, but not only, the actual offer is much diminished because of the limited financial resources and of the costs preventing the production of public goods.

Within this context, a *general trend is manifest in which the demand for public goods exceeds the offer of public goods*, both at the level of the collectivity and for different categories of public goods. The excess demand for public goods is often diminished by public loans made by the governments, with consequences on higher misbalances between the demand and offer of long-term public goods. The problem is to ensure the production of public goods at minimal costs and to empower the governmental policies to control and rationalise the production of public goods required to compensate the failures of the free market without generating failures in the functioning of the public sector.

Because difficulties are observed within the public sector regarding the definition and measurement of the output and the evaluation of public goods' quality, it is very difficult to introduce an efficient management in this field without using a system to stimulate the staff according to their performance. For instance, it is very difficult to measure the annual production delivered by the police, justice or a town hall, or to express the quality of some public goods such as education, scientific research, health care, environmental protection etc.

Under these circumstances, the production of public goods and services is measured through the inputs.

In the field of public goods production we notice the existence of classical monopolies, meaning that some public goods are entrusted to be delivered by a single public agency, the competitors being excluded, with adverse consequences on the efficiency and quality of resource utilization; the staff from such sectors becomes arrogant, authoritarian and many times aggressive in their relations with the population.

Due to the strongly random character of the technologies applied in the production of public goods, because of the interferences

between the political and administrative decisions, because of the behaviour of the decision-makers and of the public and administrative operators and because of the influences induced by the diverging interests of the social groups and the government, we witness a high frequency of the *perverted effects* in this field.

Because the production of public goods is not connected to any minimal threshold of performance evaluation, comparable to that of the market system, there is no viable mechanism which to limit the public outputs when they are not in demand, don't fit as quality or are too costly.

The general effects generated by the market failures collide with the effects generated by the failures of the public sector functioning, hence the necessity to compare them in time and space before taking the decision to correct them in any way.

<p>Life shows that the mechanisms of the public sector's functioning – based on the political and administrative decisions that originate in the maximization of the votes and budgetary expenditure – determine an evolution of the demand-offer cycle for public goods which is inferior to the mechanisms of functioning of the demand and offer for private goods, within market relations based on decentralised individual decisions.</p>

The analyses conducted on the public goods show that not all of them meet the two conditions of non-exclusion and non-rivalry. There are public goods which have non-rivalry characteristics but which do not necessarily have the non-exclusion characteristic due to reasons of capacity limitation due to political objectives etc.

The *resources in common property* also are a public good based on non-exclusion, but which have the characteristic of consumption rivalry specific to the private goods because they are exhaustible. At the time, some public goods change the non-exclusion property into "excludible" by applying instruments of exclusion, taxes and dues.

There also are private goods which do not respond completely to the two characteristics of exclusion and rivalry in consumption because the property right is not reduced just to the individual form, but it also has quasi-collective forms such as corporations, cooperatives etc.

In conclusion, the goods don't polarise strictly into private goods – based on exclusion and rivalry in consumption – and pure public goods, based on non-exclusion and non-rivalry in consumption, but intermediary forms are also observed. These intermediary, or impure,

forms have properties resulting from the merge of the characteristics coming from the two types of goods. Thus, there are *impure, or mixed, public goods* which have various degrees of properties and traits from the private goods.

According to James Buchanan, we have *pure private goods*, perfectly divisible between the consumers, meaning that each group member may consume at the same time, equally, *goods that are partially divisible*, which involve, however, indivisibility, or public elements just for a limited number of persons or small social groups, *partially indivisible goods*, where the indivisibility elements extend over a larger group of individuals than the previous group and *perfectly indivisible goods*, with elements that extend over small social groups, such as the goods offered by the clubs etc.

According to J. Stiglitz, a certain good can change the place in time and space according to the modification of its parameters of non-exclusion and the marginal costs which, in turn are function of the decision-makers' and societies' behaviour towards those specific goods, of the applied economic policies etc.

For instance, a road considered to be a pure public good, with characteristics of non-exclusion of the citizens and zero marginal costs for the additional traveller, when the traffic becomes too heavy, taxes are perceived in order to reduce it, which changes the status of the road, transforming it in a mixed public good, because the non-exclusion can no longer be absolutized and the marginal cost is higher than zero. If a highway is built by a private company in order to reduce the road traffic, and that company franchises its administration for a period of time, then the status of the highway is of mixed good, because taxes are levied and therefore, those not paying taxes are excluded and because the low speed vehicles (bicycles, tractors etc.) are excluded.

If there is a wish to rationalize the consumption of a public good using a private company which to distribute that good on specific contractual basis, the specific policy can change the place of the public good within the assembly of goods.

According to Musgrave's pattern, four categories of goods result by combining the features of the two goods, public and private: *purely private goods*, with the characteristics of exclusion and rivalry in consumption, where state's involvement in their production or distribution is not justified economically and technically; *mixed public goods*, with characteristics resulting from the combination between

non-exclusion and rivalry in consumption of the goods; *mixed public goods*, which embody the combination between the characteristics of non-rivalry in consumption similar to the public goods and exclusion specific to private goods; *purely public goods*, whose characteristics are non-rivalry in consumption and non-exclusion.

The resources in joint property which belong to the category of mixed goods, having the non-exclusion characteristic of the purely public goods and with the consumption rivalry property of the private goods. According to the literature, a jointly owned property is that economic resource on which the individual only has the right of use, not of possession or disposition, which to grant him the right of alienation or destruction. The consumption rate of the resources in common property depends on the number of consumers and on the specific consumption, unlike the purely public goods in which the consumption rate is independent of the number of consumers (such as the public lighting, for instance)⁸.

In the category of the resources in joint property may be included the *resources with fixed location* (minerals, water flows, bridges etc.) and *resources that change location* (fish, wild life); the *renewable resources* (water falls, biological resources) and the *exhaustible resources* (fossil fuels), the *resources with open access and indivisible which require*, objectively, a system of organization based on common property, as well as those treated as option-based joint property (pastures).

Due to the gratuity of the resources in joint property their utilization tends towards exhaustion and degradation. The right of joint property are used up to the point to which the marginal utility equals the zero-level price.

Where the resources in joint property are limited physically, a free liberty of the rights of utilization generates over-utilization beyond the rate of renewal, a premature exhaustion of the non-renewable natural resources, agricultural land degradation because of the irrational exploitation etc.

Under these conditions, the specialists have proved the necessity of state regulations which to control the behaviour of the individuals driven by the interest of maximizing own utilities and of some

⁸ Aurel Iancu, *Op. cit.*, p. 246.

institutions which to make possible the efficient allocation of these categories of public goods – vital for the society.

According to these specialists, the analysis of the goods in terms of the individual consumers' preferences related to their social approval or disapproval and in terms of the necessity to make corrections of those distorted individual preferences raises the problem of a new category of goods, the goods of merit.

According to Stiglitz, *the goods of merit* are those goods which the governments impose to the individuals for consumption (safety belts and sanitary education).

According to Boiley, the inefficiency of allocating resources appears if the individuals undervalue the personal benefits from the consumption of a good. Therefore, the fact that the individuals assign insufficient merit to some goods when expressing their preferences shows the necessity of governmental involvement to correct this situation, hence the necessity to name these goods merit goods.

Among the more important situations, with a general character, which determine the appearance of the merit goods are:

- a) when several individual consumers don't have preferences for the goods with important positive effects;
- b) lack of provision and insurance against possible catastrophes, diseases and accidents;
- c) deformed individual preferences due to incomplete information on the available options, due to the reality distorted by commercials or by mass-media.

In agreement with the exigencies of the social justice, in full agreement with the necessity to improve efficiency while respecting the human personality, the governmental intervention to correct the individual preferences to achieve welfare can go in three directions: increase the knowledge level and improve the information, utilization of subsidies, use of law enforcement.

In conclusion, taking into account the criteria which the existing predominant institutions can assign to some goods and services and the manner of accomplishing consumption preferences of the population, there are four large categories of goods: *purely private*, *purely public*, *mixed* and *of merit*.

Table 1

Main characteristics of the categories of goods

Characteristics	Categories of goods			
	Purely private	Purely public	Mixed*	Merit goods
Beneficiary	Individual consumer	All society members	Individual consumer and, partially, society	Individual consumer
Competition in consumption	Possible	Impossible	Probable	Probable
Elimination of the non-payers	Possible	Impossible	Impossible or difficult	Possible
Possibility to determine the price	Possible	Impossible	Possible	Possible
Option in agreement with consumer demands	Full	None	Probable	Partially affected***
Impact of utilization on the offer	Exhaustion of offer	None	Exhaustion of offer	Exhaustion of offer
Who pays the price of efficient allocation	Consumers pay the full cost	Only the consumers	Consumers pay the price adjusted by taxes and services **	Consumers pay the price subsidized by the taxpayers
Relation between the use of goods and payment	Full	None	Tight	Tight
Who decides to produce	Market only	Government only	Changed market	Market changed by state action

Source: Aurel Iancu, *op. cit.*, p. 253

* Contain both public and private goods.

** Taxes in the case of negative externalities and subsidies in the case of positive externalities

*** Bailey considers that consumer's option is full