THE THEORY OF PUBLIC GOODS (*)

1. *Introduction.*

Surveying the Anglo-American public finance literature of the past fifteen years, one can hardly fail to be struck by the increasing attention devoted to the theory of public expenditure, or, as it has come to be known, the theory of public goods.

Those of us whose public finance studies date from any but the most recent period probably retain a general impression of the overwhelming emphasis placed on taxation theory and fiscal policies for economic stability, along with a close examination of fiscal institutions. Public expenditure was traditionally treated descriptively, with the support of scattered theoretical insights gleaned from Adam Smith or from the welfare economics of Pigou.

Following influential contributions by outstanding theorists such as Samuelson, Musgrave and Buchanan, this traditional emphasis is now changing; and public expenditure theory has become a major preoccupation of the public finance specialist. It is the aim of this paper to discuss some of the main developments in this important and rapidly expanding field.

2. *The Theory of Public Goods.*

The central contribution to the modern discussion is to be found in Samuelson's « pure theory of public expenditure » presented in three short papers in the mid-1950s (1). Although this theory has

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(1) P. A. SAMUELSON, « The Pure Theory of Public Expenditure », *Review of Economics and Statistics*, November 1954, pp. 387-89; « Diagrammatic Exposition of a Theory of Public Expenditure », *Review of Economics and Statistics*, November 1955, pp. 350-356; and « Aspects of Public Expenditure Theories », *Review of Economics and Statistics*, November 1958, pp. 332-38. Musgrave's important contribution follows essentially similar lines, though with significant differences of detail and emphasis. See R. A. MUSGRAVE, *The Theory of Public Finance*, New York, 1959, especially Ch. 1, Section 3, and