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Joint Supply, the Taussig-Pigou Controversy, and the Competitive Provision of Public Goods

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JOINT SUPPLY, THE TAUSSIG-PIGOU CONTROVERSY, AND THE COMPETITIVE PROVISION OF PUBLIC GOODS

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An accident of language has caused an important field of economic inquiry to be dominated by a doctrine which is essentially unsound.

A. C. PIGOU, *Wealth and Welfare*

I. INTRODUCTION

AN impressive coterie of contemporary writers who have sought to explain and analyze the supply and demand of public goods have done so in terms of a model very much like classic Marshallian joint supply theory.¹ Buchanan has noted, for example, that “the theory of joint supply that is found in Marshall’s *Principles* is, in its fundamental respects, equivalent to the theory of public goods.”² The purpose of this paper is to explore in detail the implications of this assertion. We seek to demonstrate that the theories of joint supply and public goods are not logically equivalent, and that in some instances the attempted application of the joint supply model to the analysis of public goods has caused analytical mischief. Further, we find that certain of the fundamental points which emerged in the railway rate theory debates originating eighty years ago between F. W. Taussig and A. C. Pigou are directly applicable to the current problem of distinguishing between the theories of joint supply and public goods.³ That is, much of the present confusion

¹ See James M. Buchanan, *The Demand and Supply of Public Goods* (1968); J. G. Head, *Public Goods and Public Policy*, 17 *Public Finance* 197 (1962); James M. Buchanan & Milton Z. Kafoglis, *A Note on Public Goods Supply*, 53 *Am. Econ. Rev.* 403 (1963); James M. Buchanan, *Joint Supply, Externality, and Optimality*, 33 *Economica* (n.s. 1966); Harold Demsetz, *The Private Production of Public Goods*, 8 *J. Law & Econ.* 293 (1970).

² James M. Buchanan, *supra* note 1, at 34.

³ The controversy began with F. W. Taussig’s *A Contribution to the Theory of Railway Rates*, 5 *Q.J. Econ.* 438 (1891), and with A. C. Pigou’s *Wealth and Welfare*, pt. II, ch. 8, “The Special Case of Railway Rates” at 215 (1912). The debate continued in 27 *Q.J. Econ.* 378-84, 535-38, & 687-94 (1913). Pigou seemed to have the last word with the publication of *The Economics of Welfare* (1920), but Taussig, in response to D.



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