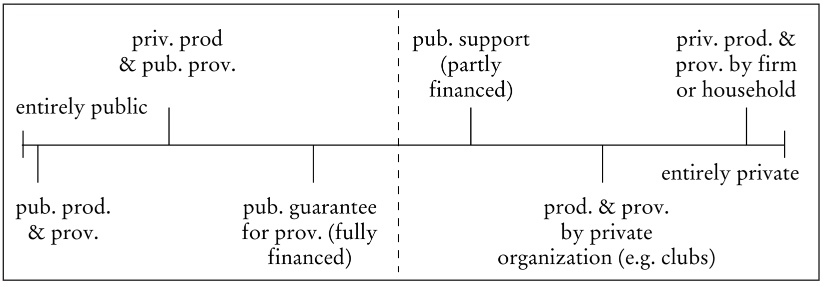
Figure 4.1: Degrees of publicness



Abbreviations: pub. = public; priv. = private; prod. = production; prov. = provision.

cation. A country – imagine a VSC – might choose to run a public university, where the employees are paid by the government to a sufficient extent. This case would be termed *public production and public provision.* The country might alternatively decide not to run its own university, but provide scholarships enabling young people to go to an adjacent country in order to attend a university there. This latter case would be an example of *public provision.* Of course, it would furthermore be possible to fully subsidize a private educational institution with public funds. Although there are many possible organizational arrangements in connection with public funding, we would also call such an arrangement *public provision,* because a more precise distinction is not necessary for our purpose. The country in question might also decide not to engage in tertiary education directly and have only private, non-funded institutions, which is a rather unlikely case of course and would be called *private provision.*[69]

The benchmark case in this chapter is the case underlying traditional public economic theory, where a public agency produces and provides a good itself. The higher economies of scale in this provision arrangement, the more severe is the disadvantage of VSC. It is the aim of this chapter to compare actual provision arrangements in VSC with this benchmark case (especially for public goods with high economies of

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69 Note that the given examples constitute only a few arbitrarily chosen locations on the continuous scale of publicness between entirely publicly and entirely privately provided goods.