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Modern Economics in the Modern World

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Abstract. A commodity is a creature of society, its traditions, its experience and, when necessary, its laws. Society defines and controls the legitimate use of commodities almost without exceptions. The three main categories of commodities are private, semi private and non private. An eating apple is a private commodity, an airline seat is a semi private commodity and a computer software program is a non private commodity. This essay describes how modern economics treats these categories.

The goal of governmental programs should be to increase, not decrease consumer welfare. In practical terms this means satisfy consumer demand at the least total cost. Because consumer demand depends on what consumers know, the total cost includes the costs of the complicated ways of acquiring information. Modern economics offers sophisticated treatments of these problems.

A commodity is not to be found in Nature. It is a creature of society, its traditions, its experience and, when necessary, its laws. Society defines and controls the legitimate use of commodities almost without exceptions. As knowledge grows and improves technology, it affects the social view of commodities.

There are three classes of commodities; 1) private, 2) semi private and 3) non private. A buyer of a private commodity owns it and can exclude others from using it. The buyer alone can accept the seller’s terms and can decide how much to buy.

A semi private commodity is different because more than one person owns the commodity and they can exclude non buyers from using it. The purchase of a semi private commodity is more complicated than a private commodity because it requires some kind of agreement either explicit or implicit among all the buyers. A private club is an example of a semi private good. The club members can prevent non members from using their facilities. The club may allow each member to decide how much to use of the services supplied by the club. Often there is a two-part price, the first part is a fixed amount to cover the common facilities, the second part is a variable amount that covers the variable costs of the services which an individual club member uses.

An example of a semi private good at the heart of a recent controversy is a passenger airplane. A passenger airplane has a fixed number of seats that sets the
maximum number of passengers it can carry. Somehow the passengers and the owner of the airplane must figure out how to cover the cost of a trip. The marginal cost of adding a passenger to a plane with an empty seat is zero. An airline using marginal cost pricing would go rapidly out of business.

While transportation offers well known cases of semi private goods, durables with a limited capacity, costly to produce but less costly to operate are also leading cases of semi private commodities. They are incapable of recouping the total cost of making them by charging users for the variable costs of the service they provide. Familiar examples in health care abound, e.g. cat scans.

A non private commodity can yield benefits to every user regardless of whether that user helped pay for its cost. A stock of knowledge is a leading example of a non private commodity. Those who create new knowledge often encounter obstacles in their efforts to collect payment from those who have derived benefits from using this new knowledge. This failure reduces the supply of new knowledge.

Leading examples of non private commodities are computer software, reproducible copies of music, fiction and non fiction. A salient feature of all these is that the cost of creation is much bigger than the cost of copying. Indeed, sometimes copying cost is almost zero. These goods are not semi private because the creator who would be the potential seller cannot prevent a buyer from sharing it with other users who have paid nothing to the creator of this material. These commodities resemble public goods although it was private persons who made these goods, not the state.

Who owns non private goods? The so-called agency model is one way for the producer to retain ownership of goods sold by wholesalers and retailers, but it does not prevent final customers who buy and thereby own the product from doing as they like with their property.

Long ago the motion picture industry faced and solved the same problem. Film producers made motion pictures exhibited in movie theaters. If a movie theater bought and owned the film it exhibited, then it could sell the film to another theater who could exhibit it without a penny going to the motion picture producer. The entrepreneurs in the motion picture industry found a solution. They did not sell the movie to the theater, instead they rented it to the exhibitor. In this way the motion picture producer retained
ownership rights and control all the way to the final user who could watch the film but could not copy it. Now even this solution would fail because new technology enables the viewer to copy even while watching the film.

Motion picture producers faced and solved another problem. A potential viewer wanted to know enough about a film in advance before deciding to pay for viewing it. Special sources of pertinent information sprang up to meet this desire. While a viewer could and did learn about new films from friends apart from these costly sources of information about films, no low cost exhibitors could free load off other exhibitors who charged higher prices to cover the cost of the information about new films they provided potential viewers. In the retail book trade and the phonograph record business such free loading was a common practice. Some retailers of these commodities had displays of these products available for inspection by potential customers who could buy the same article from other retailers who provided no such services. The low cost sellers could sell their products at lower prices because they were free loading off the higher priced retailers who did offer these service. Publishers and phonograph record producers set minimum retail prices to prevent free loading by retailers who did not provide the services. By setting a minimum retail price, the manufacturer made possible remuneration to retailers for the cost of the information they provided to potential retail customers.

The huge reduction in the cost of copying digital transmissions coupled with the equally spectacular increase in the speed of digital communications not only created problems but also led to solutions of these problems. Producers of music, publishers and software producers can store their products in the cloud. They own the this material stored in the cloud and they can control access to it. This creates a system similar to the one invented and used by motion picture producers decades ago. Users can obtain rapid access to the material stored on the cloud, pay rental fees for their usage and cannot readily transfer service to potential free loaders. Therefore, the non private commodities become semi private commodities. Problem solved.

The railroad passenger industry does not offer a happy solution to its problems with its semi private commodities to the other transportation industries. The railroad passenger business struggles. Most rail commuter services cannot survive confined to
the revenue they obtain from the fares they charge riders. Cities and other local
governments help support the rail commuter business. Perhaps a similar fate lies in
store for passenger airlines.

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