Public Goods

AS Economics Presentation

2005

Private Goods

- Excludability:
  - Consumers of private goods can be excluded from consuming the product if they are not willing or able to pay for it
  - For example - a ticket to the theatre or a sports event or a meal in a restaurant
- Rivalry:
  - With a private good, one person's consumption of a product reduces the amount left for others to consume
  - Scarce resources are used up in producing and supplying the good or service
- Rejectable Goods:
  - Private goods and services can be rejected

Public Goods

- Public goods have two main characteristics:
- Non-excludability:
  - The benefits of public goods cannot be confined to only those who have paid for it
  - Non-payers can enjoy the benefits of consumption at no financial cost to them
- Non-rivalry in consumption:
  - Consumption of a public good by one person does not reduce the availability of a good to other people
  - We all consume the same amount of public goods even though our tastes for these goods might differ
  - In other words, if the good is provided for one person it must be provided for others

Public Goods?

The benefits of water filtration systems, the enjoyment from a fireworks display, the light for passing ships from a lighthouse – are these examples of pure public goods?

Pure Public Goods

- Pure Public Goods
  - National Defence Systems (i.e. the nuclear deterrent)
  - Sewage and Waste Disposal Systems
  - Lighthouse Protection
  - National Rail Safety Systems
  - Street Lighting
  - Firework Displays

Semi-Public (Quasi) Public Goods

- Products that are public in nature, but do not exhibit fully the features of non-excludability and non-rivalry
- On grounds of equity the government may provide these goods directly and finance them through general taxation
- Examples of quasi public goods might include:
  - Motorways and Major Roads
  - Parks
  - Terrestrial television (public service broadcasting)
  - Police Force protection
  - Galleries and Museums
  - Airwaves

Are beaches pure public goods?

Public Goods and Market Failure

- The free market economy will fail to deliver / allocate a socially efficient quantity of public goods because of their characteristics
  - A problem arising from public goods is the free rider issue
  - People take a free ride when they benefit from consuming a good or service without paying for the costs of provision
  - Many goods have a public element but they are not pure public goods – e.g. a congested motorway
- Pure public goods are provided collectively and financed through taxation or other forms of compulsory charges
  - The key is the estimated social benefit from providing public goods measured against the cost of supplying them – this can involve a subjective judgement on the benefits derived

The Free Rider Problem

- Consumers have an incentive to not reveal their willingness and ability to pay for public goods if they believe that they will be expected or required to contribute to financing the public good
- Good examples to use include TV Licence dodgers and people who choose to evade Council Tax but who still receive local authority services

The Free Rider Problem

- Another example might be a group of residents in a block of flats who all stand to benefit from better lighting and security systems, but who individually might try to avoid payment and benefit once the improved amenities are in place
- Given the nature of the free rider problem, public goods are often financed through some form of enforcement, notably the compulsory nature of the TV Licence fee