

# *Public Goods & Services*

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## **The Public Sector and the Private Sector**

The public sector of the economy is all the production and consumption activities of government. One important economic role of the public sector is to produce goods and services. This might surprise you. We usually think of goods and services as being produced in the marketplace or what is often called the private sector of the economy. After all, in a market economy, people provide the goods and services for which others are willing to pay.

A private good or service conveys its benefits only to the purchaser. Most goods and services are private. They include the CD you just purchased or that car your friend just bought. Nevertheless, private sector suppliers may not produce certain goods and service in sufficient quantities, even though large numbers of people may want them.

Which goods and services might these be? What are these things that will not be produced in sufficient quantity even though many people want them? These are public goods. Public goods or services convey benefits to payers and non-payers. They tend to be the goods and services that become available to everyone once they are produced - whether people pay for them or not. If individuals can obtain a good or service whether they pay for it or not, they have less incentive to pay. They are tempted to become "free riders."

Similarly, if producers anticipate that the goods or services they produce will be "given away" to non-payers or free riders, they have little incentive to produce. That is why the private sector may not produce enough - or any of certain goods or services that people want.

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### **PUBLIC GOODS AND SERVICES HAVE TWO, VERY SIMILAR CHARACTERISTICS:**

1. **Non-exclusion:** If it is difficult to exclude non-payers from receiving some goods or services, the government should probably produce them. For example, a streetlight on a public street would benefit all the neighbors, regardless of how many had paid for it.
2. **Shared consumption:** If one person's use or consumption of a good or service does not reduce its usefulness to others, the government should probably produce that good or service. For example, national defense tends to benefit or be shared by everyone, and its benefit to one person does not diminish its benefit to another.

Of course, some goods and services may be produced in both the public and the private sectors. While our society may view particular goods or services as meeting the tests of non-exclusion and shared consumption, this may not prevent the good or service from being offered by the private sector for consumers who do wish to pay for it individually. For example, there are private schools as well as public schools, private camping sites as well as public camping sites, and, in some places, private means for garbage collection as well as public means for garbage collection.

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## QUESTIONS FOR DISCUSSION

A. What is the public sector?

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B. What is the private sector?

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C. What makes a private good unique?

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D. What makes a public good or service different from a private good or service?

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E. What is a "free rider"?

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F. What does non-exclusion mean?

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G. What is shared consumption?

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## In Your View ...

All the public goods and services listed below are currently paid for by taxes. For each good or service, place a check mark in the appropriate column that best expresses your viewpoint.

Public Goods and Services	<u>PAY FOR AS USED</u> This good or service should NOT be paid for with tax dollars. People should pay for this good or service individually when they use it. Individuals who do not pay will do without this good or service.	<u>PAY FOR WITH TAXES</u> This good or service should continue to be provided with tax dollars.
National defense		
Public schools		
Highways and roads		
Dams		
Police protection		
State universities		
National forests		
Weather forecasts		

Compare your answers above with those of some other students. Use this information to answer the following questions:

1. In general, how do people feel about paying for public goods and services as they use them rather than paying for them with tax dollars? Are they more willing to pay for some public goods and services through taxes than others? Which ones? How do you explain this behavior?
2. Why would it be difficult to provide some of the public goods or services using the private sector, making those who use the goods and services pay for them?
3. What would happen if the public goods and services on the survey list were produced and distributed based on the results of your table?