

## PUBLIC GOODS / COMMON RESOURCES

**The Market Provides Most Goods...**

- We consume some goods without paying:  
parks, national defense, clean air & water.

How are they provided?

\_\_\_\_\_

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**Important Characteristics of Goods**■ **Excludability**

- a person can be \_\_\_\_\_

■ **Rivalry in consumption**

- one person's use \_\_\_\_\_

“\_\_\_\_\_” *property rights?*

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**The Different Kinds of Goods**

When markets don't "work"...

Private decisions \_\_\_\_\_

**Why?**

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**Categorizing Goods by Characteristics**

Rival in Consumption?

		Yes	No
Excludable ?	Yes	_____ Good e.g. _____ _____	<b>Club Good/ Natural Monopoly</b>  e.g. cable tv fire protection
	No	_____ e.g. _____ _____	_____ Good e.g. _____ _____

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**Public Goods**

- Subject to the \_\_\_\_\_ *problem*.
- \_\_\_\_\_: a person who receives the benefit of a good but \_\_\_\_\_
- Result:
  - \_\_\_\_\_  
 - even if buyers collectively value the good higher than the cost of providing it
  - role for govt: \_\_\_\_\_

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**Public Goods**

- If ... \_\_\_\_\_ > \_\_\_\_\_
  - govt should provide the good
  - pay for it by \_\_\_\_\_
- \_\_\_\_\_: study that compares the costs and benefits...of providing a public good
  - *Measuring the \_\_\_\_\_ of a public good is particularly difficult!*
  - Imprecise

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OVER all, the American government seems to be turning its back on its traditional role of producing and investing in national public goods. If there is any consistent tendency in recent government spending, it is that spending on entitlements like Social Security and Medicare — which provide mostly private benefits — is rising and that investment and spending on national public goods is falling.

As a budget category, "government consumption and gross investment" is a proxy for many kinds of public goods spending. **As a share of gross domestic product, it has fallen to less than 19 percent, from a peak of 24 percent in the 1980s, with no expected reversal in sight.** Yet total government spending is expected to increase because of income transfers and entitlements. Neither political party seems able to halt that logic or even cares to make an issue of it.

Focusing government on the production of public goods may sound like a trivial issue, too obvious to be worth a mention. But, in fact, we have been failing at it, and the consequences could be serious indeed.

~Tyler Cowan, *Economist*, George Mason Univ.  
New York Times, May 2013

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## Common Resources

### Common resources ("open-access resources")

- \_\_\_\_\_  
- cannot prevent free riders
- \_\_\_\_\_  
- each person's use reduces others' ability to use
- role for govt: \_\_\_\_\_

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## The Tragedy of the Commons

- A "\_\_\_\_\_ " ... Garrett Hardin, 1968
- The \_\_\_\_\_ incentives (using the land for free) outweigh the \_\_\_\_\_ incentives (using it carefully).
- Inevitable result? \_\_\_\_\_.

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## The Tragedy of the Commons

- The tragedy is due to an \_\_\_\_\_:  
Allowing one's flock to graze on the common land reduces its quality for other families.
- People neglect this external cost, resulting in overuse of the land.

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## Policy Options to Prevent Overconsumption of Common Resources

- \_\_\_\_\_ — (command and control approach)
- impose a \_\_\_\_\_ to internalize the externality
- \_\_\_\_\_ allowing use of the resource
- convert to a \_\_\_\_\_
- "Community created and enforced rule systems with ownership rights in common provide for protection of resources." Elinor Ostrom

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## CONCLUSION

- Public goods tend to be under-provided, while common resources tend to be over-consumed.
- These problems arise **because** \_\_\_\_\_  
\_\_\_\_\_
- The govt can potentially solve these problems with various policy options.

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