

## 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?

Governments

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## Important Characteristics of Goods

## ■ Excludability

- a person can be prevented from using it

## ■ Rivalry in consumption

- one person's use diminishes other people's use

“Fuzzy” *property rights?*

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## The Different Kinds of Goods

When markets don't “work”...

Private decisions don't yield efficient outcomes

**Why?**

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## Categorizing Goods by Characteristics

Rival in Consumption?

		Yes	No
Excludable ?	Yes	<u>Private</u> Good e.g. <u>books</u> , <u>cars</u>	Club Good/ Natural Monopoly e.g. cable tv fire protection
	No	<u>Common Resource</u> e.g. <u>fish in the ocean</u> , <u>the environment</u>	<u>Public</u> Good e.g. <u>national defense</u> , <u>outside views</u>

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## Public Goods

- Subject to the free-rider problem.
- Free rider: a person who receives the benefit of a good but doesn't pay for it
- Result:
  - good is not produced  
- even if buyers collectively value the good higher than the cost of providing it
  - role for govt: providing the good

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## Public Goods

- If ... benefits > costs
  - govt should provide the good
  - pay for it by taxing people who benefit from it
- Cost-benefit analysis: study that compares the costs and benefits...of providing a public good
  - Measuring the benefits 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")

- non excludable
  - cannot prevent free riders
- rival in consumption
  - each person's use reduces others' ability to use
- role for govt: ensuring they are not consumed

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## The Tragedy of the Commons

- A "parable" ... Garrett Hardin, 1968
- The private incentives (using the land for free) outweigh the social incentives (using it carefully).
- Inevitable result? degraded land

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## The Tragedy of the Commons

- The tragedy is due to an external:  
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

- regulate use of the resource — (command and control approach)
- impose a resource tax to internalize the externality
- allocation of permits allowing use of the resource
- convert to a private good
- "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** property rights are not well-internalized
- The govt can potentially solve these problems with various policy options.

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