##### Market failure

# Resource 6.0 – Public Goods

##### Public Goods

**What is a public good?**

A good or service, that may be consumed by more than 1 person at a time and from which everybody can benefit e.g. streetlights

This leads to the concept known as the free rider problem –

If I can still receive it without paying there is no incentive to contribute.

**Public goods have 3 features:**

## NON-EXCLUDABILITY

Impossible to consume without others enjoying the benefits

## NON-RIVALRY

One person consuming it does not leave less for everybody else.

## NON-REJECTABLE

Cannot choose not to consume it.

**Where is the market failure?**

Insufficient resources are put to a socially valued output, resulting in inadequate provision which reduces welfare: e.g. fewer street lamps is likely to increase the number of accidents and, possibly, crime.

**How is the market failure corrected?**

The government provides it free to all and fund it from general taxation.

**How well is this market failure corrected?**

It doesn’t know what the optimum level is and so may deliver too much.

The government’s aim is to provide a service, without reference to profit and in absence of competition likely to lead to some inefficiency.

**Is it a fair assumption that people only ever act in their own self-interest?**

No it is not necessarily appropriate - for example many charities are financed entirely by voluntary contributions.

**Some services now** provided by state on the basis that they are public goods used to be provided by the private sector. Plaques on old buildings are fire insurance plates. Householders and shop- keepers would pay insurance. In the event of fire, firemen would check that the owner was up to date with his insurance premium before turning on the hoses.

**Why might state provision better?**

1. Fire spreads rapidly. Why wait until an insured building becomes on fire first?
2. The quality of service is likely to improve because the focus has changed from making a profit to providing a service.
3. Economies of scale: one national service is better than many small ones.