

The Need for Private and Public Goods and Services

- Our world consists of the private sector and the public sector.
- This is especially the case in countries with market economies.
- Each of these sectors plays an important role in our societies, and aspects of the role of one cannot be filled by the other.
- So, what are these sectors?

“Private-sector businesses are owned and managed by private individuals or enterprises who focus on taking risks to create jobs and generate a profit. They are competitive. . .”



walmart-store-front_129826456676858078.jpg
(4237*2757) (stockinvestor.com)



<http://logosimages.blogspot.com/2013/09/company-logo.html#ZBNxsTMLZR>



“The public sector references all government-owned or government-affiliated organizations, including the federal government, states, and localities. Public-sector organizations focus on services to the public as a whole. . .”



<https://www.prioritygraphics.com/case-studies/sf-public-safety-building>



https://images.havecamerawilltravel.com/images/10000wOtv_WRSw/



<https://www.saferack.com/public-sector>

Text at: <https://www.wallstreetmojo.com/public-sector-vs-private-sector/>

- These definitions are widely accepted.
- These images show the logos and buildings for some example corporations (private sector) and agencies (public sector).

"[B]oth sectors must go hand in hand as only one sector cannot lead the country in the path of success."

<https://keydifferences.com/difference-between-public-sector-and-private-sector.html>

"[T]o provide the services which, in the words of Adam Smith, 'though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual or small number of individuals' – these tasks provide, indeed, a wide and unquestioned field for state activity. In no system that could be rationally defended would the state just do nothing."

Hayek, F.A. 1944. *The Road to Serfdom*. As quoted in Bruce Caldwell (editor) 2007. Volume II, *The Collected Works of F.A. Hayek, The Road to Serfdom Text and Documents, The Definitive Edition*. Routledge London: The University of Chicago Press. P. 88.

- Both sectors are essential, as this first statement illustrates: “[B]oth sectors must go hand in hand as only one sector cannot lead the country in the path of success.”
- Even the political and economic conservative Fredrick Hayek, in his seminal work that champions the private market titled *The Road to Serfdom*, cites Adam Smith, the father of classical economics, to state that the public sector is indispensable.

Criteria

Excludability = *“a legal principle that when enforced allows an owner to prevent others from using his or her asset.”*

Rivalness = *“an inherent characteristic of certain resources whereby consumption or use by one person reduces the amount available for everyone else.”*

Daley H.E. and J. Farley 2004. *Ecological Economics: Principles and Applications*.
Washington: Island Press. P 73.

- There are two primary criteria for differentiating between a private good and a public good.
- These are “excludability” and “rivalness.”
- Excludability is *“a legal principle that when enforced allows an owner to prevent others from using his or her asset. An excludable resource is one whose ownership allows the owner to use it while simultaneously denying others the privilege.”*
- Generally, this means that the owner can charge for the privilege of using the good.
- This is a legal principle because it requires that social institutions be in place that enforce the denial of use.
- Not all goods and services are excludable.
- *“There is no conceivable way that an individual can own climate stability, or atmospheric gas regulation, or protection from UV radiation, since there is no feasible institution or technology that could allow one person to deny all others access. When no institution or technology exists that makes a good or service excludable, it is known as a **nonexcludable resource**.”*
- Rivalness is *“an inherent characteristic of certain resources whereby consumption or use by one person reduces the amount available for*

everyone else.”

- Importantly, it is an inherent characteristic of the good or service and is not dependent on social institutions.
- “A *rival resource* is one whose use by one person precludes its use by another person” (e.g. a pizza, a bicycle). If I use it, nobody else can.
 - Pizza – If I eat it, nobody else can.
 - Bicycle – If I’m riding it, nobody else can.
- “A ***nonrival resource*** is one whose use by one person does not affect its use by another” (e.g. the light of a streetlight, the ozone layer). If I use it, I do not “use it up.”
 - Streetlight – If I’m experiencing its light, many others could be experiencing the same light as well at the same time.
 - Ozone layer – If I’m shielded from UV radiation because of it, many others could be shielded as well at the same time.

Excludability and Rivalness

	Excludable	Nonexcludable
Rival		
Nonrival		

<http://livingeconomics.org/article.asp?docid=239> .

- Excludability and Rivalness are both present with all goods and services.
- This diagram shows how they relate.
- The horizontal axis is excludability and the vertical axis is rivalness.
- The diagram has four quadrants, each of which shows a combination of the two criteria. A good or service can be (1) excludable and rival (upper left); (2) nonexcludable and rival (upper right); (3) excludable and nonrival (lower left); or nonexcludable and nonrival (lower right).

Excludability and Rivalness

	Excludable	Nonexcludable
Rival	Private Goods	
Nonrival		Public Goods

<http://livingeconomics.org/article.asp?docid=239>

- Private goods and public goods exist at the poles.
- Private goods are excludable and rival; that is, the owner can exclude people from access unless they pay the owner and only one person can access any specific item at a time.
- Most goods that people typically think about are private and are both excludable and rival. These are goods that behave "normally" regarding supply and demand, and the profit motive and competition work well.
- Public goods, on the other hand, are nonexcludable and nonrival; that is, it would be very difficult or impossible to prevent people from accessing them and many people can access them with full benefit at the same time.
- A notable feature of public goods is that free markets produce less of them than is socially desirable.
- Individuals operating in private markets don't have very much of an incentive to provide public goods because, as Adam Smith stated, "*the profit could never repay the expense to any individual or small number of individuals.*"

Excludability and Rivalness

	Excludable	Nonexcludable
Rival	Private Goods Food and clothing Car House	
Nonrival		Public Goods Tax-based: Nuclear umbrella The law Indirect private funding: Search engine On the air TV

<http://livingeconomics.org/article.asp?docid=239>

- These are some examples of private and public goods.
- The public goods and services may be provided by taxes or indirectly through private funding.

Excludability and Rivalness

	Excludable	Nonexcludable
Rival	Private Goods Food and clothing Car House	Common Goods Fish in open sea Public waterways
Nonrival		Public Goods Tax-based: Nuclear umbrella The law Indirect private funding: Search engine On the air TV

<http://livingeconomics.org/article.asp?docid=239>

- Then there are goods that are nonexcludable but rival. They are called common goods.
- Like public goods, they are nonexcludable, that is, it would be very difficult or impossible to prevent people from accessing them, but they are rival because only one person can access them at a time and/or they can be “used up.”
- Fishing in the open seas is an example. As long as there is any benefit (profit) to the individual, he or she will continue to extract fish, leaving fewer fish for anyone else and actually reducing the stock of fish, literally “using up” the resource.
- Public waterways provide another example since no two boats can occupy the same place at the same time.

Excludability and Rivalness

	Excludable	Nonexcludable
Rival	Private Goods Food and clothing Car House	Common Goods Fish in open sea Public waterways
Nonrival	Low-congestion Goods (aka. Club Goods) Cable television Satellite radio Online WSJ	Public Goods Tax-based: Nuclear umbrella The law Indirect private funding: Search engine On the air TV

<http://livingeconomics.org/article.asp?docid=239>

- The last type of good consists of what is known as low congestion or club goods.
- An example of a club good is cable TV. Your use of cable TV does not limit my ability to also view television shows on cable. However, it is excludable in that you have to pay the monthly fee.
- These goods could be privately provided, but that runs the risk of monopoly and hence of underprovision.
- Consequently, public provision is desirable, although critics argue that politicians and bureaucrats will always have an incentive to ensure their own employment by over-providing these goods.

Private goods and services
Public goods and services
Common goods and services
Club goods and services

“ . . .only one sector cannot lead the country in the path of success.”

<https://keydifferences.com/difference-between-public-sector-and-private-sector.html>

The Need for Private and Public Goods and Services

- So, there are multiple types of sectors for goods and services and no one type of sector will work in all situations.
- It is commonly said that government should be run like a business to make it more efficient.
- But, *“[D]oes it make sense to run government like a business? The short answer is no. Bear in mind, first, that ‘efficiency’ in the private sector means profit. Hence, to ask that the government be run like a business is tantamount to asking that the government turn a profit. The problem in a nutshell, is that not everything that is profitable is of social value and not everything of social value is profitable,”*
- So instead of falling back on tired, old truisms, any good or service should be studied in terms of excludability and rivalness in order to identify which type of sector would best deliver that good or service.