Public vs. Private Goods

- THE PRODUCT DIVISIBLITY
- In the case of some goods in an economy, it is possible to limit the number of consumers using these goods by higher prices, so that those who cannot afford the purchase will not buy the good. These goods become divisible so far its use is concerned.
- Because these goods may be priced, the principle of exclusion can be applied. Those who cannot pay the market price, are excluded from its use.
- Thus we can say that the ability to price the goods, its divisibility and the exclusion principle, all go together.
- THESE ARE PRIVATE GOODS.

PUBLIC GOODS

- **The goods that cannot be divisible or are indivisible are referred to as public goods.**
- **Eg. Every person, immaterial if he pays the taxes or not, is equally allowed to enjoy the street light, road pathways etc.**
- **The defense services that are provided for a nation cannot be limited to a few individuals. Every citizen of the country is equally secure from the foreign aggressions.**
- **These services are hence indivisible.**
- **It cannot be priced in the market in order to deprive some members from its use or benefit.**
- **In these cases, a consumer cannot surrender these services even if he wants to. He cannot refuse the benefits of reduced pollution, street light etc.**

The Problem of Free Rider

- **It is possible for the members of the society to voluntarily purchase or not purchase the Private goods, as they are divisible.**
- **But in case of Public goods, because each one gets the benefits even if he pays or not, every individual will argue that even if he does not pay for the good, he will still get the benefits, and so everyone will prefer not to pay.**
- **Hence the payments of such products or services has to be done by compulsory contributions form every member through tools such as taxation.**

- **The indivisible goods whose benefits cannot be priced, and hence the principle of exclusion does not apply are called as pure public goods.**
- **Pure private goods are completely divisible and to them, the principle of exclusion applies in full measures.**
- **The financing of public goods should be through public expenditure and this means that the pure public goods should be in the hands of the Public Sector only.**

The concept of externalities

- **One important concept of pure public goods and in many cases, private goods too, is the factor of externality. It refers to the economic effects which flow from the production or use of the good to another parties or economic units.**
- **These effects are also called as spill over effects, neighborhood effects, or third party effects.**

- Eg. A powerhouse using coal would cause a lot of ash throwing in the neighborhood through its chimneys.
- Similarly, the coal engines that drive the railways puts the near by residential to a lot of suffering on account of smoke nuisance.
- This is a cost to the society and not to the individual power house or the railway department.
- THESE ARE SOCIAL COSTS.

Marginal Cost

- **An important characteristic of a pure public good is that its marginal cost would be zero.**
- **I.e. implies that, an additional member of the society can be benefited by its use without adding much to its total cost.**
- **The use of a pure public good, by one more member of the society does not reduce its availability to others.**

- Modern economics talks about the concept of "free enterprise" where there is least control of the Government over the choices, preferences, priorities of the individuals over their economic pursuits.
- The reality is however quiet different. In practice, the government holds tremendous authority not only to influence private business decisions, but also to control and regulate the private business activities.