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UPSC Civil Services Examination

UPSC Notes [GS-III]

Topic: Public Goods - Public Goods v/s Private Goods

In economics, goods are categorized into many different ways based on excludability and rivalrousness. Excludability is determined depending on the fact that whether an individual can be prevented from consuming them. Whereas, rivalrousness of a particular good is determined depending on whether individuals can consume these goods without affecting their availability for the other individuals.

There are mainly four different types of goods:

- private goods
- public goods
- common resources
- club goods.

Public good is an important topic for the IAS Exam and forms an important part of the UPSC Syllabus.

What are Public Goods?

Public good is a term in economics which refers to the good (commodity) that is available for use for everybody and one person's usage of it does not diminish or exhaust its availability to others. It is considered non-excludable and non-rivalrous. Public goods are provided as a whole to the society by the government and the consumption of these goods by an individual doesn't reduce its availability or doesn't exclude others from consuming it. Therefore, public goods are non-rivalry and non-excludability.

Examples of public goods are education, infrastructure, lighthouses, flood control systems, knowledge, fresh air, national security, official statistics, etc. The public good is different from the common good in that common good, though non-excludable, tends to be semi-rivalrous in nature. Examples of common goods would be timber, coal, etc. Public goods are useful for the population as a whole.

Free Rider Problem

The non-excludable property of the public goods gives rise to the free-rider problem as these goods can be bought by the people without paying for them. The free-rider problem is regarded as the burden on a shared resource. This situation arises when a person is using or overusing these goods without paying his/her fair share for it. The free-rider problem can occur in any community, large or small.

What is a Private Good?

Any product which must be purchased for consumption, and which prevents another individual from consuming it if consumed by one individual is known as a private good. Therefore, a good is considered to be a private good if there is a competition between individuals to obtain the good and if consuming the good prevents someone else from consuming it.

Private goods have a lesser chance to experience the free-rider problem than the public goods as private goods are not readily available for free and a company produces private goods with a goal of making profits.

Common Resources

Common resources are defined as products or resources that are non-excludable but rival. That means they can be used by virtually anyone. However, if one individual consumes common resources, their availability to other individuals is reduced. The combination of those two characteristics often results in an overuse of common resources. Examples of common resources include freshwater, fish, timber, pasture, etc.

Club Goods

Club goods are products that are excludable but non-rival. Thus, individuals can be prevented from consuming them, but their consumption does not reduce their availability to other individuals (at least until a point of overuse or congestion is reached). Club goods are sometimes also referred to as artificially scarce resources. They are often provided by natural monopolies. Examples of club goods include cable television, cinemas, wireless internet, toll roads, etc.

Difference between Public Goods and Private Goods

The public goods and private goods vary from each other on the basis of excludability and rivalrousness. The major differences between Public Goods and Private Goods are mentioned in the table below:

Public Goods	Private Goods
It is non-rivalry as the consumption of one unit of these goods by one person does not decrease the available units for consumption by another person.	It is rivalrous as the consumption of one unit of private goods by one person does decrease the available units for consumption by another person.
It is non-excludable. A good is said to be non-excludable if it is impossible, or extremely costly, to prevent someone from benefiting from that particular good who has not paid for it.	It is an excludable good as it prevents a person from enjoying the benefits of the good if they have not paid their share on that good.

The Public Goods forms an important topic under the Economics section for the Civil Service Exam. Candidates preparing for UPSC 2020 are also advised to keep a track on the latest current affairs topics related to several economic developments in the country.