

Public Goods

Most goods and services produced in market economies are *private goods and services*. The consumers who purchase these goods consume these goods; for example, a hamburger is a private good. A lighthouse is an example of a public good. *Public goods* differ from private goods because they are **Non-rival** and **Non-excludable**

Non-rival means that one person's ability to benefit from the good doesn't take away from another person's ability to benefit from the good. Think of a fireworks display, a statue in a park, or a radio program broadcast over the airwaves. Your consumption doesn't in any way diminish that of others. This stands in stark contrast to most goods, where if you consume more, less remains for others. (for example, cookies)

Non-excludable means that it's hard to prevent non-payers from consuming a good or service. For instance, when you produce a fireworks display, everyone in the vicinity gets to see it for free no matter how much you'd like to charge them for it. A more serious example is an army: When it's in place to provide national defense, it provides national defense for everybody, including those who don't want to contribute to the cost of maintaining it.

Because of these characteristics of public goods, it's very hard for private firms to make any money producing them, so they don't have an incentive to provide them. Think about trying to get people to buy tickets for an outside fireworks display. Because people know that they're going to be able to see it for free, they won't buy tickets. This is called a *free-rider problem*. Because they won't buy tickets, there's no way to raise money needed to put on the display.

This sort of chicken-and-egg problem is frustrating, because while people don't want to pay for something they can get for free, they actually do like fireworks displays — meaning that they're fundamentally willing to pay something to see them. The problem is figuring out how to get them to pay.

Providing Public Goods

The most common solution to the problem of how to provide public goods has been for governments to step in and use tax money to pay for them. In the case of fireworks, because nearly everybody likes fireworks, there's no problem getting enough political support for spending tax money on the displays. And after they've been funded by the taxpayer, everyone can enjoy them.

For other goods and services where it's difficult to collect money to pay for them, and the public is not willing to use tax money to provide them, they are often paid for through advertising. Once a radio show is broadcast, it's almost impossible to stop people from listening for free (except for satellite radio). However, it still costs money to produce radio shows. To solve this problem, radio is supported by advertising. This is becoming common for much "free" content on the internet (think of Facebook).