

# Public Goods, Private Goods, and the “Tragedy of the Commons”

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## WHAT'S COVERED

This tutorial will define the concepts of rivalry and excludability, covering how both of these concepts are used to categorize goods as public, private, club, and common. We will also discuss how the "tragedy of the commons" occurs with common goods.

Our discussion breaks down as follows:

1. Rivalry and Excludability
2. Types of Goods
  - a. Private Goods
  - b. Public Goods
  - c. Common Goods
  - d. Club Goods
3. Government Intervention

## 1. Rivalry and Excludability

Let's begin today's lesson by discussing two goods that couldn't be more different from one another: a piece of pizza and a public park.

Obviously, we know that they are very different goods, but what is it that makes them different? What is it that makes them different to an economist?

The two concepts of **rivalry** and **excludability** help us to classify types of goods, like the two mentioned above.

Rivalry means that once a good is consumed, it is no longer available for consumption by another individual.

### IN CONTEXT

For instance, when you eat a piece of pizza, no one else can eat that same piece of pizza. You have

consumed it, so it's gone. Your consumption of it prevents someone else from enjoying it, so it has the characteristic of rivalry.

The public park is different. When you decide to take your dog for a walk at the park, other people *can* do the same thing. You can enjoy the same park at the same time as other people, so a public park is non-rivalrous.

Excludability is when a good is accessible to all individuals, but requires payment or special access.

## IN CONTEXT

For example, you can be excluded from enjoying a piece of pizza. You have to pay for your piece of pizza. If you do not pay for it, you can be excluded from consuming it.

On the other hand, if you took your dog to the public park and went for a run, you did not have to pay or gain special access to take a walk in the park. No one can exclude you from enjoying the public park; therefore, the park does not have excludability. It is non-excludable.



### TERMS TO KNOW

#### Rivalry

Once a good is consumed, it is no longer available for consumption by another individual

#### Excludability

A good that is accessible to all individuals, but requires payment or special access

## 2. Types of Goods

Next, we will discuss the different types of goods using these two concepts.

### 2a. Private Goods

**Private goods** are goods that can be limited and therefore exclusive, and available for only limited consumption, which also makes them rivalrous.

So, private goods are both rival and excludable.



**EXAMPLE** That pizza is a private good because it has both of these characteristics. Only you could consume it, and once you did, nobody else could, which makes it rival. You also had to pay for it, so it was excludable.



### TERM TO KNOW

#### Private Goods

A good that can be limited and therefore exclusive, and available for only limited consumption, and therefore rivalrous

## 2b. Public Goods

**Public goods** are the exact opposite. These are considered both non-rivalrous and nonexclusive.

➞ **EXAMPLE** The public park near your house is a public good because you can enjoy it at the same time as others and there is no way for them to make you have special access or exclude you from the public park.

Other classic examples of public goods are things like national defense and radio signals. Regardless of whether you pay your taxes or not, you can't be excluded from enjoying the benefits of our national defense. The same logic applies to radio signals.



### TERM TO KNOW

#### Public Goods

A good that is considered both non-rivalrous and nonexclusive

## 2c. Common Goods

**Common goods** are shared goods that are available to all members of a community.

A common good is neither completely private nor completely public. Like a private good, it is rival, but like a public good, it is non-excludable.

➞ **EXAMPLE** For example, we cannot exclude people from fishing in international waters, so in that regard, it is non-excludable. However, at the same time, when people over-fish, they deplete the water of fish for others, so it is rival.

Therefore, it is in between a private and a public good. We call it a common good because it is in common, which makes it rival, but we cannot exclude people from enjoying it.

This brings up the issue of "tragedy of the commons." Because common goods have this characteristic of non-exclusion, people tend to overuse, or over-consume them.

➞ **EXAMPLE** For example, it is hard to keep someone from overfishing in international waters, so the resource tends to get depleted.



### TERM TO KNOW

#### Common Goods

Shared good that is available to all members of a community

## 2d. Club Goods

Finally, **club goods** are goods are excludable and non-rivalrous.

Club goods are neither completely private nor public, in that they are non-rival, like public goods, but also excludable, like private goods.

➞ **EXAMPLE** For example, you have to pay to go the movies, so you can be excluded. In this regard, it's like a private good. However, once you are there, others can watch the same movie while you go, so it's non-rival.

A **free-rider** is an individual who consumes more of a common good, decreasing the opportunity of another individual to consume their proportionate share.



## TERMS TO KNOW

### Club Goods

Goods that are excludable and non-rivalrous

### Free-Rider

An individual who consumes more of a common good, decreasing the opportunity of another individual to consumer their proportionate share

Here is a summary of these types of goods, with examples.

	Excludable	Non-excludable
Rivalrous	<b>Private Goods</b> Food, clothing, most personal item purchases	<b>Common Goods</b> Fish stocks, coal, timber "Tragedy of the Commons"; Free-riders
Non-rivalrous	<b>Club Goods</b> Amusement parks, private clubs, movie theaters	<b>Public Goods</b> National defense, radio signals

## 3. Government Intervention

Now, what incentive does any private firm have to provide national defense or a public park?

They could not exclude people from enjoying the benefits of it, so there is little chance to ensure a profit.

Because of the inability to withhold people from enjoying benefits who do not pay, the private sector tends to "under-provide" public goods.

In these cases, if it is something that the government sees as necessary or beneficial to society, the government will provide them.

Keep in mind, though, that not all services and goods provided by the government are *public goods*.

Public simply refers to, in economics, the concepts of rivalry and excludability. If it meets the criteria for a public good, it is, but simply because it is provided by the government does not make it a public good.



**EXAMPLE** For example, K-12 education is "publicly" provided by the government to all children in the United States, but through the lens of the concepts of rivalry and excludability, in many ways it actually has characteristics that make it a private good.



## SUMMARY

Today we learned how **rivalry and excludability** are two ways of helping us to categorize the different **types of goods: private goods, public goods, common goods, and club goods**. We learned that the "tragedy of the commons" refers to the idea of some goods being over-consumed since people cannot be excluded from them. Lastly, we learned how public goods will be under-provided, so **government intervention** is needed to provide those types of goods.

Source: Adapted from Sophia instructor Kate Eskra.



## TERMS TO KNOW

### **Club Goods**

Goods that are excludable and non-rivalrous.

### **Common Goods**

Shared good that is available to all members of a community.

### **Excludability**

A good that is accessible to all individuals, but requires payment or special access.

### **Free-Rider**

An individual who consumes more of a common good, decreasing the opportunity of another individual to consumer their proportionate share.

### **Private Goods**

A good that can be limited and therefore exclusive, and available for only limited consumption, and therefore rivalrous.

### **Public Goods**

A good that is considered both non-rivalrous and non-exclusive.

### **Rivalry**

Once a good is consumed, it is no longer available for consumption by another individual.