

A ‘public good’ is not just something which is ‘good for the public’

The abuse of economic terminology in public debate

Alex Robson

In economics, terms such as ‘public good’, ‘monopoly’ and ‘market failure’ have very precise definitions. But a quick glance through one’s favourite newspaper reveals that these terms are used carelessly or incorrectly time and again. The result is that policy debates end up mired in confusion, dishonesty and downright stupidity.

Take ‘public goods’ for example. These are simply goods which simultaneously provide benefits to more than one individual (or, as economists say, they exhibit ‘non-rivalry’ in consumption). My consumption of a public good does not reduce your ability to enjoy it at the same time; whereas my consumption of a private good automatically eliminates the possibility that you can simultaneously enjoy it. The inability to exclude consumers (‘non-excludability’) from consuming the good is also sometimes included by economists as part of the definition of ‘publicness’.

Alex Robson is a lecturer in economics at the Australian National University

Notice that this characterisation of public goods does not refer to how many people purchase the good, the economy’s institutional arrangements (socialist dictatorship or free market capitalism?) or the identity of the person supplying the good (private sector or public sector?)

Although economists use it rather sparingly, the term ‘public good’ is much abused in popular debate, where one finds confusing, contradictory definitions to be the rule rather than the exception. To add to the confusion, the definitions are often not stated explicitly but are usually revealed by the kinds of goods which are classified as being ‘public’.

Water is a common example. Often, water seems to be labelled as a public good simply because it is something which members of the public enjoy consuming or consume on a regular basis. Left-wing activists even go so far as to claim that that water is a ‘basic human right’.

But when a litre of water is consumed by one person, exactly one litre less is available for someone else to consume. And—as anyone who has ever forgotten to pay

Water is a perfectly rivalrous, perfectly excludable, pure private good—about as far from the definition of ‘public good’ as we can get.

their water bill would know—it is relatively easy for water suppliers to exclude households from consuming water.

In other words, water is a perfectly rivalrous, perfectly excludable, pure private good and is about as far from the definition of ‘public good’ as we can get. The fact that something is consumed by many people and provides each of them with significant benefits does not make it a public good.

Water is not a ‘human right’, because supplying it to one person means that someone else has missed out on consuming that water. In turn, this means that if I have a ‘human right’ to consume water, someone else must have an obligation to supply it to me—at their own expense, of course.

Applying this ridiculous definition would lead us to conclude that the entire spectrum of goods, from food and clothing to pencils and paper—basically anything that people consume in sufficiently large amounts or sufficiently regularly—are public goods.

Often, it is the sad reality that governments own and control water resources that seems to drive the view that water is a public good. In other words, according to this approach, a public good is ‘something which is owned, produced or provided for by the government’.

This is just as absurd as the first incorrect definition, and the consequences of applying it in practice are rather troubling. Since one of the largest items in the modern government’s budget is the basic cash transfer payment (for unemployment benefits, pensions and so on) taking this definition seriously would lead us to conclude that the provision of purchasing power over all goods and services is also a public good—in which case we would again conclude that pretty much everything is a public good.

Governments do indeed own, produce or provide for a vast number of goods and services, but very few of these are actually public goods.

Take healthcare services, for example. Anyone who has been to a hospital knows that it is not possible (or very hygienic!) for more than one patient to share a single hospital bed. Doctors do not treat more than one patient at a time. A headache pill cannot be consumed simultaneously by the entire population. And it is not possible even to get admitted to a hospital for a planned surgery without first supplying insurance details or a credit card number.

In other words, healthcare services—hospital beds, doctor consultations, and pharmaceuticals—are rivalrous,

excludable goods, just like water. They are not public goods, even though the government owns, produces or subsidises them.

This is not to say that certain kinds of disease prevention measures might carry positive externalities. But it is a huge leap from this conjecture to the conclusion that just because we observe the government intervening in healthcare markets, healthcare must be a public good.

Another definition of ‘publicness’ one often sees (particularly with reference to health, education and the arts) is that a public good is ‘something which must be supplied by the government because individuals will not consume it in adequate amounts’. Economists have a special name for these (namely, merit goods) but the two terms seem to get confused in the popular debate.

Politicians, bureaucrats and commentators do indeed attempt to justify government provision of some goods because they fear that individuals will not consume sufficient amounts if left to their own devices. But this is based on a paternalistic view of individuals and on one’s definition of ‘adequate’. It has little analytical utility and can often lead to contradictions.

For example, a politician might take the view that an individual left to his own devices might consume too little education and too much water. According to the foregoing definition, this would lead us to conclude that education is a public good—but that water is not. And yet it is highly doubtful that the same politician would be willing to leave the allocation of water resources to the forces of the free market.

Why does any of this matter? History tells us that any attempt to ‘democratise’ water consumption, and transform it from a purely private resource into a ‘human right’ which must be provided at zero price no matter what, leads to a common pool resource problem in which water is wasted and over-consumed.

In other words, treating private goods as if they were public is a sure recipe for economic disaster. And constantly trying to persuade consumers that they have a right to as much water as they want at zero price by incorrectly using terms such as ‘public good’ can have grave economic consequences.

IPA