**PUBLIC GOODS AND MARKET FAILURES**

**Binod Goswami**

**Nowgong Girls’ College**

Public goods are closely tied to the concept of market failures. Market failures occur when the allocation of goods and services in a free market is inefficient, leading to outcomes that are suboptimal from a societal perspective. Public goods are a classic example of a market failure because they are often underprovided by the private sector due to their unique characteristics. Here's how public goods relate to market failures:

**Non-Excludability:** Public goods are non-excludable, meaning it is difficult or impossible to exclude individuals from using or benefiting from them once they are provided. In a market, firms typically want to charge a price for their goods and services to cover production costs and make a profit. However, with public goods, this is challenging because anyone can benefit from them, even if they don't pay. As a result, firms have little incentive to produce public goods because they cannot capture the full value through pricing. This leads to an under-provision of public goods in the absence of government intervention.

**Non-Rivalrous Consumption:** Public goods are non-rivalrous, meaning one person's consumption of the good does not diminish its availability for others. In contrast, most goods in the market are rivalrous, meaning if one person consumes it, there is less available for others. This non-rivalrous nature further complicates the pricing and provision of public goods in a market context.

**Free Rider Problem:** The non-excludable and non-rivalrous nature of public goods creates what is known as the "free rider problem." Since individuals can benefit from public goods without paying for them, they have an incentive to be "free riders" and not contribute to the cost of producing the goods. This makes it financially unsustainable for private firms to provide public goods, leading to market failure.

Given these characteristics, public goods are typically provided by the government or other public authorities. The government can use taxation to finance the production of public goods, ensuring that they are available for everyone to enjoy.

In summary, public goods exemplify one type of market failure known as the under-provision of goods with characteristics like non-excludability and non-rivalrous consumption. To address this market failure, governments step in to produce and provide public goods to ensure their availability for the benefit of society as a whole.