A Circle of Parks
VIDEO #2: The Economics of Public Goods

Suppose that you walk down a city sidewalk and write a list of 20 things that you see, including things that you normally just take for granted. Here’s an example.

The sidewalk
The curbstone
The street
A Storm drain
A maintenance hole cover that says “Water Department”

An old-fashioned sidewalk clock on a stand

A Bank
A Convenience store
A Yoga studio
A Pizza restaurant

A bench in front of the pizza restaurant

A planter with flowers in front of the pizza restaurant

An office building with a sign offering free job training

A fire station

A public park
Benches in the public park

Flowers in the park
Trees in the park

Squirrels
Birds

Think about some of the things that you take for granted. Who put them there? Who benefits from these simple things that we take for granted?

In this lesson we look at the economic concepts of “public goods” and “private goods” and at three types of organizations that provide products and services in the city: private, public and non-profit.

Some of the places on this list are privately-owned businesses, including the pizza restaurant, yoga studio, convenience store and bank. Someone – a person, a family, a partnership, or other group – started these businesses and runs these businesses, offering products and services to the community. Customers pay for the products and services. Customers buy pizza. Customers sign up for and pay for yoga classes. Customers buy food from the convenience store. The owners and workers earn money from these businesses.

Other things on your list are probably not provided by a private business. Think about the storm drains that you see along the side of the street. Storm drains are a necessary part of a city street, to provide a place for rainwater to flow after a rainstorm and a place for snow to melt in the winter. But no one would say “I think I’d like to set up a storm drain” the way they might say “I would like to open a pizza restaurant” or “I want to open a yoga studio.”

Why not? In the study of economics, a PUBLIC GOOD is defined as something that benefits everyone, but it would be hard to get people to be customers to pay for that item.

A public good is something that is benefits everyone, no matter whether or not they own it; or no matter whether or not they helped to pay for it. It is something that can’t be divided into slices or shares, so that it would be hard to charge for each person’s share of the benefits.

Storm drains are a good example. Everyone benefits, but no one chooses to pay for a storm drain the way they would buy a slice of pizza or sign up for a spot in a yoga class.

Public goods are typically provided by government, paid for by the taxes that everyone pays to the government.

Trees and flowers in a public park are also great examples. Everyone enjoys seeing the trees and flowers, and everyone breathes air that is cleaner because the city has trees. Everyone enjoys seeing and hearing birds that live in the trees. It doesn’t matter how many people look at and enjoy the trees and flowers and birds. Unlike a slice of pizza or a spot in a yoga class, you can’t claim these things as your own.

The fire department is another example of a public good. The fire department protects all the houses and businesses in the city, even when you don’t need to call them.

Sidewalks and streets are also public goods. These benefit everyone and can’t be divided up and sold like a pizza, to say, for example, “this square of this sidewalk is mine.”

What types of organizations provide the products and services that you noticed on your walk in the city? We can define three types of organizations:

Private sector – businesses owned by individuals, families, partnerships and corporations, providing products and services and earning profits for the owners. A profit is defined as earnings that are extra,… for example that money earned by the pizza restaurant that is extra after paying for the pizza ingredients, the wages for workers, the rent for the building, and the other costs. The private sector is also sometimes called the "for-profit" sector.

Public sector – Public sector organizations are agencies or departments in the local, state or federal government or other levels of government. The parks department, roads department, fire department, and other city departments are part of the public sector. There are different levels of government that make up the public sector. There are city parks, state parks, and national parks, each provided by the different levels of government. There are local roads, state highways and interstate highways, paid for and maintained by local, state and federal government.

Non-profit sector – Non-profit organizations are developed to provide important services to the community. Non-profit organizations are organized by people from the community. Unlike private sector organizations, they are not designed to make a profit, but just to bring in enough money to provide the services that they offer In the list of 20 things that you saw on a walk through the city, there was an office that offered free job training. That office may be a non-profit organization, developed to help people in the community to learn new skills and find new jobs. Non-profit organization provide services free or at a low cost, not to earn profits, but to make the community a better place.

Most of the places and things on the list of 20 things come from the private, public or non-profit sector. But here are two more categories:

Informal sector – some organizations are informal, without paid staff or budgets or profits. For example, if you saw a group of neighbors having a park clean-up day, that might have been simply an informal neighborhood organization, not a private business, not a public government organization, and not a non-profit organization.

Non-economic – Look back at the list of 20 things you saw on a walk through the city. The last two items – birds and squirrels – are not part of the economy of the city – they are not products or services.

Who provides public goods? Parks, streets, sidewalks, storm drains, fire departments, and other PUBLIC GOODS are usually provided by the public sector. Each of these things might be provided by the local government, the state government, or the federal government.

There are a few exceptions that are interesting to think about. We listed a bench in the public park, and we assume that is a public good, placed there by the city government as part of the public park. We listed flowers in the public park also, also public goods. But we also listed a bench and flowers in front of the pizza restaurant. It is hard to say whether these are private or public goods, since they mostly benefit the customers of the pizza restaurant, but also benefit everyone.

Another example: the sidewalk clock is there for everyone who walks by. Especially in generations before cellphones, it was great to have a clock on the city street so you could see the time. The sidewalk clock is a public good, but not necessarily provided by the city government. A local business such as a bank often provides a sidewalk clock, just a way of advertising the bank name while giving back to the community.

In any college textbook about economics, we see the concept of public goods, and learn that most public goods are provided by government agencies, through taxes, because there is no real incentive for individuals or private businesses to provide these things. But when we study civic engagement we also see that many individuals and private sector businesses help to support things like parks, by volunteering, donating money and serving on committees, even though they don‘t earn any money for this work. As you study the idea of civic engagement, it is helpful to think about why people and businesses are willing to give time and money to support things like public parks.

Here is a challenge: Look at photos of a city street or take a walk along a city street and make your own list of things that you see. How many public goods can you find in your list? Can you include things that are invisible, such as clean air or shade from trees? Can you include some things that are taken for granted such as signs and traffic lights? Who in the community takes care of these things?