[What goods and services are best provided by the public sector and which are best provided by the private sector?](https://www.econ.iastate.edu/node/710)

Ask an Economist

**Question:**

Some goods and services are provided by the government (e.g., mail delivery and schools) while others are provided by private business firms (e.g., grocery stores and dry cleaning). Economically, what goods and services would be best provided by the public sector and which are best provided by the private sector?

**Answer:**

Economists distinguish broadly among three types of goods along the private to public continuum. Purely private goods are purchased and used by individuals and families. Another way of explaining a private good is to say that my use (or consumption, in economist language) excludes your ability to consume the same good. Food is the best understood example. Food is eaten by one person. A family may purchase and cook for the family and their friends. People may share food with friends or with needy families through food banks, but only one person can eat a particular serving of food. Because private goods are purchased and consumed, traditional supply and demand analysis describes the market for private goods very well. The intersection of private demand curves and production supply curves correctly predicts the appropriate market price and quantity.

Public goods are at the opposite end of the continuum. Classic examples include national defense and the internet. The characteristic that distinguishes a pure public good from a pure private good is that one person’s use does not diminish the ability of someone else to use the same good at the same time. You and I are equally protected by U.S. national defense. My consumption does not exclude your consumption. For that reason, traditional supply and demand analysis does not correctly identify how much defense to “produce” and how much each person should pay for his or her defense. In fact, since no business could charge each person for their defense, there is no market mechanism to identify how much each individual is willing to pay. Economists generally agree that pure public goods are properly provided by government and paid for by taxes. There are complicated ways to discern how much each person is willing to pay, but it is much simpler and more acceptable politically to use the tax system.

Many goods, including the examples of mail delivery and schools, involve both public and private benefits. There is an expressed private demand for mail delivery and schools. Individuals are willing to pay private delivery services, such as Federal Express and UPS, to deliver mail and packages outside the postal service and families send their children to private schools at high costs, while still paying taxes for public schools. Even sending mail through the postal service is not free and students at primary and secondary schools pay more for many extras that enhance their education.

Before government provision of mail service and schooling, private mail service and private schools were the only options. The reason that mail service and schools are also provided by the government is that having universal mail delivery and universal schooling have large public benefits in addition to their private benefits. Let’s look at schooling, in particular. If only the wealthy are educated, most of the population is confined to low-wage, low-skill jobs. The economy suffers and the country does not prosper. Moreover, if only the wealthy are educated, they will control the political agenda. Universal primary and secondary education, combined with subsidized higher education ensures the possibility of equal opportunity for all to move into high-skill, high-wage jobs and to effectively participate in politics. A larger population of high-wage earners contributes to economic growth.

Economists refer to goods like schooling, mail service, vaccinations against communicable diseases, roads, and bridges, just to name a few, as having positive externalities. They would be provided privately for those who could pay, but having them available benefits many more people than those willing to pay privately. If large numbers of people are vaccinated, we can prevent pandemics, such as the 1918 flu epidemic. Everyone benefits from having roads and bridges. There is also an important coordination benefit from public support for the production of goods with positive externalities. The public mail service maintains a database of all addresses and zip codes that private mail services also use. The Centers for Disease Control coordinates information on diseases and adjusts vaccinations to account for changes in diseases. The National Weather Service coordinates information on weather that everyone can use to plan for everything we do in our lives, from weekend picnics to airline travel to agricultural planning to disaster preparation.

Just as in the case of pure public goods, the private market does not have a mechanism for determining each person’s benefit from having such goods available. And, as in the case of public goods, there are complicated ways to figure out what each person or family is willing to pay. However, it is simpler and more acceptable politically to fund such goods (or the subsidies in addition to private payments) through the tax system.

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