

A business can complete a sale while leaving part of the transaction's cost with someone who never agreed to it. A delivery company receives payment for moving goods, but excessive noise from its overnight loading area may keep nearby residents awake. The reverse can happen too: a property owner plants shade trees, and people walking along the sidewalk enjoy cooler conditions without paying the owner. These effects belong to economics because they influence people's well-being and the use of resources. An externality is a cost or benefit from an activity that reaches others and is not fully reflected in the prices or agreements governing that activity. Learning to recognize externalities expands our view of an exchange. We begin looking beyond the buyer, the seller, and the receipt.

A negative externality imposes an uncompensated cost on others. A positive externality provides a benefit for which the person creating it is not fully compensated. "External" refers to the effect being outside the decision-maker's own calculation, rather than outside the economy. Noise, polluted runoff, and knowledge that others can freely apply are examples worth examining. However, every effect on another business is not automatically an externality. A new store attracting customers away from an existing store ordinarily represents competition through the market. Contaminating a neighboring store's water supply creates a different kind of consequence. The International Monetary Fund's introduction to externalities explains the distinction between private costs and benefits and those experienced more broadly.

Private cost is the cost borne by the person or organization carrying out an activity. Social cost includes that private cost plus relevant costs imposed on others. Imagine a fictional manufacturing process that costs a company \$40 per unit while causing an estimated \$10 per unit in damage to neighboring properties. Its social cost is \$50 per unit under those simplified assumptions. Suppose customers value an additional unit at \$45. Producing it could appear worthwhile to the company because \$45 exceeds its \$40 cost. Once the outside damage is included, the additional unit costs more than the benefit it provides. The calculation does not condemn manufacturing. It identifies a missing cost that changes which production decisions make economic sense.

This kind of mismatch is one form of market failure, meaning a market outcome does not use resources efficiently when all relevant costs and benefits are considered. The term has a specific meaning; it does not imply that every business has failed or that exchange itself is undesirable. A market can coordinate many transactions successfully while leaving a particular harm unpriced. The practical question becomes how to bring that effect into the decision. Internalizing an externality means making the person or organization responsible for an activity take its outside consequences into account. A requirement to prevent damage, compensation for affected parties, or a charge tied to pollution can change the calculation. The usefulness of each approach depends on the activity and how accurately the consequences can be identified.

Pashon Murray's work with Detroit Dirt provides a different way to approach the problem: building an enterprise around recovering value from materials otherwise treated as waste. Detroit Dirt's [description of its work](#) identifies its focus on composting and returning organic material to productive use. Composting is the managed breakdown of organic material by microorganisms in the presence of oxygen, producing a material that can improve soil. Murray's achievement involves recognizing connections among discarded material, collection services, soil, and urban agriculture. A restaurant's food scraps and a grower's need for soil improvement can become parts of the same productive process. That requires organization, handling, processing, and customers or partners who value the resulting service and product.

The environmental effects help explain why this work matters beyond a compost sale. Food decomposing under oxygen-poor landfill conditions can generate methane, a greenhouse gas that contributes to warming. Properly managed composting can reduce landfill methane emissions, while the resulting compost can help soil retain moisture and reduce runoff. The [Environmental Protection Agency explains these processes and benefits](#). Some benefits can be captured directly: a grower may pay for compost because it improves the soil being cultivated. Others, such as reduced greenhouse-gas emissions, extend much more widely. Distinguishing those benefits helps identify which ones a sale rewards and which ones may remain outside the transaction. The total environmental result still depends on actual processing, transportation, and use; it must be measured rather than assumed from a favorable label.

Positive externalities create a related challenge. An activity may provide more value than its producer can collect in payment, so less of it may occur than would be beneficial overall. Consider a fictional orchard that plants flowering habitat to support pollinators. If those pollinators also improve nearby growers' harvests, neighboring farms receive a benefit beyond the orchard's own return. The orchard may consider only its own harvest when deciding how much habitat to maintain. Cooperation among growers could help recognize and support the wider benefit. The same reasoning can apply to knowledge that spreads beyond its original creators. What matters is identifying the actual benefit reaching others, rather than assuming every admirable activity necessarily produces a measurable external gain.

Christopher Bradshaw's Dreaming Out Loud offers another example of organizing economic activity around needs that extend beyond one purchase. The Washington, D.C., nonprofit social enterprise developed food markets, urban agriculture, and programs supporting food businesses and economic opportunity. A social enterprise uses business activities or methods to pursue a social purpose; the term can describe organizations with different legal structures. Dreaming Out Loud's [account of its development](#) describes its markets program, farming partnerships, and the launch of the Farm at Kelly Miller. Georgetown University recognized Bradshaw with its [2021 John Thompson Jr. Legacy of a Dream Award](#). His achievement shows how farming, distribution, education, and enterprise development can be organized together rather than treated as unrelated needs.

We can use that setting to distinguish direct benefits from spillovers without inventing claims about the organization's measured results. Someone buying fresh produce receives a direct benefit from the purchase. A participant receiving instruction gains a direct educational benefit. If that participant later shares useful growing techniques with neighboring gardeners at no charge, those neighbors receive an additional benefit. If an urban growing site supports pollinators that improve nearby gardens, that is another possible spillover. Whether those effects occur, and how large they are, requires evidence. This precision strengthens the case for useful work. It allows us to explain the service being delivered, the people directly served, and the additional benefits that may justify support from a wider group.

Public goods introduce a second important idea. In economics, a public good has two defining characteristics: it is nonrival and nonexcludable. Nonrival means one person's use does not meaningfully reduce what remains available to others. Nonexcludable means preventing people from receiving the benefit is difficult or costly. Consider an outdoor warning siren covering a neighborhood. One resident hearing the warning does not prevent another from hearing it, and excluding individual households from the sound would be impractical. The warning service therefore has public-good characteristics within its coverage area. "Public good" is a technical description of how a benefit is shared. It is not simply another name for something valuable, something free, or something owned by a government.

That distinction prevents several common misunderstandings. A publicly funded meal remains rival because the same meal cannot be fully consumed by several different people. A classroom has limited seats and teacher time, even when attendance is publicly funded. A privately financed service can have public-good characteristics if its benefits are broadly available and one person's use does not diminish another's. Goods can also change character with circumstances. An uncrowded road may accommodate another driver with little effect on others; a congested road cannot. A subscription information service can restrict access even though additional readers do not consume its information in the way someone consumes a meal. Ownership, funding, access, and capacity are separate questions, and considering each produces a clearer classification.

Public goods create a financing problem called the free-rider problem. A person may benefit whether or not they contribute, making voluntary contributions insufficient to cover a worthwhile service. Suppose a neighborhood warning system costs \$1,000, and one hundred households each value its protection at \$20. The combined benefit is \$2,000, exceeding the cost. Yet each household may prefer that the others pay, since the warning will still reach it. If too many reason this way, the system may never be installed. Possible arrangements include shared assessments, public funding, donations, or an organization that bundles the service with other activities. The issue is how to coordinate payment for a benefit whose use cannot easily be limited to paying customers.

Common resources present a different challenge. A common resource is difficult to exclude people from using, but one person's use reduces what remains for others. Fish

in an accessible lake provide a clear example: fish caught today are unavailable to another fisher and may reduce future reproduction. A warning signal can reach more listeners without being used up; a fish population can be depleted. Shared irrigation water, grazing areas, and some groundwater supplies have similar characteristics. Sustainable use may require agreed limits, monitoring, maintenance, and consequences for violations. Public agencies, local associations, cooperatives, and private agreements can each play roles. The central task is matching rules to the resource and the people using it, including those who depend on its continued availability.

One way to address negative externalities is a corrective tax or fee tied to the harmful activity. Economists sometimes call this a Pigouvian tax, after economist Arthur Pigou. Its purpose is to make an outside cost matter in the decision-maker's calculation. Suppose a fictional workshop can eliminate a unit of harmful discharge for \$4, while releasing it carries a \$10 charge. Preventing that discharge becomes financially attractive. If the charge is poorly measured or weakly enforced, however, its effects may fall short. Direct standards offer another approach, such as requiring treatment equipment or limiting emissions. Tradable permits establish an overall allowance for covered pollution and allow participants to trade permission within the system. Each approach needs credible measurement, enforcement, and attention to where harm occurs.

Cooperation can sometimes resolve smaller conflicts without an elaborate system. Suppose a rehearsal studio's evening sessions disturb a neighboring recording business. Soundproofing, revised hours, or a cost-sharing agreement might improve the situation for both. Reaching agreement becomes harder when thousands of people are affected, the source of harm is disputed, or some participants cannot effectively represent their interests. Transaction costs—the time, information, negotiation, and enforcement needed to make an agreement work—can become substantial. Supporting positive spillovers raises similar design questions. A grant for useful research or shared environmental improvements may encourage beneficial work, but its value depends on what additional results the funding produces. Good intentions need arrangements that connect support to actual outcomes.

Measurement should follow the full activity rather than stopping at its most attractive result. A composting program can track how much material it receives, contamination rates, processing costs, the quality of finished compost, and where the material goes. Its wider evaluation can also consider transportation and any effects on neighboring properties. An urban agriculture program can distinguish food produced, skills taught, businesses supported, and additional effects that require separate study. This approach gives achievements a stronger foundation. It also makes improvement possible: a program may deliver excellent instruction while needing more reliable distribution, or process material efficiently while needing better collection routes. Understanding the whole system helps preserve what works and identify what needs attention.

The enterprises represented by Murray and Bradshaw demonstrate the economic importance of noticing resources and possibilities that others may overlook. Discarded material can become a useful input. Growing knowledge can reach beyond one plot. Organized access to equipment, markets, and information can make productive work possible. The concepts of externalities, public goods, and common resources help us examine those possibilities with greater care. They direct attention to the people outside the immediate transaction, the benefits that cannot easily be sold individually, and the resources that require shared rules. Excellence in this setting includes creating value, understanding its reach, and taking responsibility for its costs. A successful arrangement makes useful activity sustainable while giving the people affected by it a meaningful place in the decision.