

The Public Sector

The public sector is made up of organisations that are owned and run by the government, whether central or local. This part of the economy is huge, and includes some of the largest employers in Europe as well as the UK. The government spends over £600 billion a year running public sector organisations and providing public sector services. The largest public sector organisation, the NHS, is the biggest civilian employer in Europe, costing nearly £130 billion a year to run.

Why do we need a public sector?

Public Goods

Some goods and services which we need in our everyday lives, would simply not be provided by the private sector looking to make profits. These necessities include street lighting, defence (army, navy, air force), and the police. The problem with these goods is that we can all benefit without paying for



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them. So if someone paid for and installed street lighting, anyone walking down that road would benefit - and if you are benefiting without paying, why pay? These goods which will only be provided by the government are called 'public goods'. Be careful here as not all goods provided by the Public Sector are public goods. What defines public

goods according to economists is that they are 'non excludable' and 'non rival'.

Non excludable means that individuals cannot be prevented from enjoying the benefit of provision of the goods or services. So we all gain from having violent criminals kept behind bars, as the threat to our families well being is reduced. No individual is excluded from this benefit, the same would apply to having clean air or peace created by an effective armed services and foreign policy.



Non-rival means that one person gaining from consumption of the good or service, does not prevent others from gaining from the good or service. If I eat an ice cream, no one else can benefit from that ice cream, that good is therefore rival, but if I gaze through clean air at the views of the Gower peninsular, that does not prevent others from gaining benefit from the same view, the good or service is non-rival. The same with being able to feel safe walking the streets, policing and law and order are non-rival, or feeling free from the threat of foreign invasion— defence is non-rival. One person benefiting does not reduce the benefit other people gain.

Merit Goods

There is another group of goods and services that is supplied by the private sector, but the quantity supplied of these goods and services is likely to be much less than what is most efficient for the economy. The two best exam-

ples of these are education and health care. There are of course private schools and private hospitals but most patients are treated by the NHS, and most children go to State Schools. The government spends a great deal of money trying to ensure that we have an effective Health Service and schools and colleges that supply a well educated and trained work force. We would under consume merit goods if it were left to the market. Some consumers could not afford the goods, others would fail to see the full benefit of consuming these goods.

Merit Goods are said to have positive externalities. This means that the consumption of these goods have positive effects not only on the individual that consumes them, but also on society in general. By attending school you become better educated, become skilled, maybe use your knowledge and skills to set up your own business, you employ people, pay tax—society benefits. So there are positive externalities to your education. Also if you succeed in school you are less likely to commit crime and require the safety net of the benefits system. It is because of these positive externalities and under consumption if left to the market, that the government provides merit goods (mainly) free at the point of delivery. Instead of paying to consume these goods or services directly, we pay for them through general taxation.

Objectives of the Public Sector

The main objective of privately owned firms is to make profits, but for organisations in the public sector, performance is measured differently. Instead of looking for profits, we might say 'do GP surgeries offer value for money, treating patients effectively, whilst not overspending on medicines?' Another way

of measuring effectiveness is through measuring customer satisfaction or by tables of performance. So inspectors are sent into schools, and exam results league tables are published. The idea of these is to make organisations that are not normally facing competition, to behave as if they have to compete for their customers (in the case of schools that means pupils). And as you know, competition improves efficiency and quality.

We can say then that the main objectives of Public Sector organisations are:

- **Provide a quality service.** You expect the best possible treatment from your local hospital, you expect traffic to be smooth flowing on the country's roads, benefits should be paid on time etc.
- **Provide value for money for the taxpayer.** Money spent should be seen to be achieving something worthwhile. There should not be excessive spending or obvious waste.
- **Provide for the populations needs.** What the government spends money on should meet the needs of the populace, after all it is our money that is being spent. This includes benefits, and pensions.
- **Provide goods and services that the market is inefficient and providing.** These include Public Goods like policing, and defence, and Merit Goods such as education and health care.
- **Don't waste tax payers money.** The National Audit Office is the government department which has the job of checking on the effectiveness of government spending. A quick look at the reports it

produces shows that there are huge amounts of waste, £100's of millions spent on failed projects, computer systems that never work, or consultants that state the obvious.

- **Help the economy grow** through investment in transport, education, and other services

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