BIBLIOGRAPHY

Cicero. 1998. *The Republic and the Laws.* Trans. Niall Rudd. New York: Oxford University Press.

Locke, John. 1963. *Two Treatises of Government.* Ed. Peter Laslett. New York: Cambridge University Press.

Schmidtz, David. 1991. *The Limits of Government: An Essay on the Public Goods Argument.* Boulder, CO: Westview Press.

Schubert, Glendon A. 1982. *The Public Interest: A Critique of the Theory of a Political Concept.* Westport, CT: Greenwood Press.

Ilya Somin

PRIVATE SECTOR

The private sector is the part of a country's economy that is not controlled directly by the government; it is a term that combines households and businesses in the economy into a single group. The resources of production owned by the private sector are owned in the form of private property. The private sector includes entities such as households and individuals, for-profit enterprises, sole traders, partnerships, corporations, nonprofit-making organizations, charities, and nongovernmental organizations (NGOs). *Private sector* is contrasted with *public sector*, which is a comparable term for the governmental sector. In 2004 the private sector share of gross domestic product (GDP) in current prices in countries of the Organisation of Economic Co-operation and Development was: Australia 85.85 percent, Canada 87.72 percent, Finland 81.48 percent, France 80.73 percent, Germany 85.32 percent, Greece 87.54 percent, Italy 85.68 percent, Japan 84.38 percent, Norway 82.31 percent, Sweden 78.17 percent, the United Kingdom 83.65 percent, and the United States 89.46 percent. In contrast, in developing countries and transition economies the 2004 private sector share of GDP in current prices was lower: the Bahamas 73.29 percent, Botswana 70.50 percent, the Democratic Republic of Congo 69.07 percent, Nicaragua 76.61 percent, South Africa 75.92 percent, Bulgaria 70.36 percent, Croatia 75.36 percent, the Czech Republic 71.98 percent, Georgia 51.44 percent, and the Slovak Republic 75.69 percent (Heston, Summers, and Aten 2006). Dani Rodrik (2000) argues that the reason for the private sector's low share in developing countries is due to the fact that for governments in low-income countries, creating additional public-sector jobs is administratively easier than establishing an unemployment insurance scheme or subsidizing job security in the private sector.

The distinction between private sector and public sector reflects the two alternative methods of solving the allocation of resources in an economy: markets or government. Markets utilize private ownership of resources—thus the term *private* sector—for voluntary allocation decisions. In contrast to the public sector, the private sector—with the exception of nonprofit-making organizations, charities, and nongovernmental organizations—mainly searches for profit opportunities. Private companies and organizations produce goods and services in response to supply-and-demand forces in the market, with the final goal of making a profit for the owners and shareholders of the private enterprise.

The private sector plays a key role in accelerating economic growth in market capitalist economies. The private sector is the foundation of the market capitalist economic system. Without the private sector the capitalist market cannot exist, and vice versa. For example, the development of the private sector in transition economies was vital, and the final goal of transition was associated with the private sector being converted into the dominant sector in the economy. In all industrialized or advanced capitalist economies, the absolute and relative size of the private sector is very high. Hence, in a capitalist market economy the private sector is mostly responsible for most of the country's investments, for the generation of new job opportunities, and for the improvement of standards of living, and it is the source of most technological developments.

The government in market capitalist economies undertakes the following responsibilities to promote and support the private sector:

1. creating proper legal environment for the private sector to function, through private property rights and contract law;
2. introducing customs and tax laws that should encourage private investment;
3. often providing basic infrastructure produced by public enterprises such as water, power, land, transport and communication services, and other necessities;
4. initiating macroeconomic policies and expenditure to increase the demand for the private sector produced goods.

The private sector increases into two ways: through privatization of state-owned enterprises (SOEs) and through the creation and establishment of new firms. In this way, the share of the private sector in the economy grows. Privatization represents the transfer of state-owned assets to private ownership, alongside the creation and fostering of private businesses. Privatization is an alternative way of distributing and choosing the means of generating wealth (Marangos 2004). Consequently, it also may be considered a distribution of political and economic power

in the economy. The increase of the private sector further implies the abandonment of government control over economic activity, as well as the abandonment of state monopoly in certain sectors. However, as the private sector increases, both income and wealth inequality increase, and intergenerational mobility decreases:

> It is true, however, that America was once a place of substantial intergenerational mobility: Sons often did much better than their fathers.… [However,] over the past generation upward mobility has fallen drastically. Very few children of the lower class are making their way to even moderate affluence.… In modern America, it seems, you're quite likely to stay in the social and economic class into which you were born. (Krugman 2004)

Supporters of the private sector mistrust government-initiated economic activities because they believe that the private sector is both efficient and enterprising. This further increases efficiency because of the increase in macroeconomic productivity due to the adoption of new technology. Critics of the private sector argue that the private sector does not produce public goods, that it creates private monopolies, enhances income and wealth inequality, and discourages intergenerational mobility. Public goods are commodities where the exclusion principle breaks down, and they are nonrivalrous. Such goods include, for example, lighthouses, national defense, police, fire brigades, and traffic lights. In nearly all industrialized or advanced market-capitalist economies, public goods are provided by the government and funded through the collection of state revenues.

SEE ALSO *Capitalism; Corporations; Investment; Privatization; Productivity; Property; Public Goods; Public Sector*

BIBLIOGRAPHY

Heston, Alan, Robert Summers, and Bettina Aten. 2006. Penn World Table Version 6.2. Center for International Comparisons of Production, Income, and Prices at the University of Pennsylvania, September.

Krugman, Paul. 2004. The Death of Horatio Alger. *The Nation*. January 5. http://www.thenation.com/doc/20040105/krugman.

Marangos, John. 2004. Modeling the Privatization Process in Transition Economies. *Oxford Development Studies* 32 (4): 585–604.

Rodrik, Dani. 2000. What Drives Public Employment in Developing Countries? *Review of Development Economics* 4 (3): 229–243.

Aristidis Bitzenis
John Marangos

PRIVATIZATION

Although *privatization* is an imprecise term with different meanings in different contexts, it broadly refers to loosening governmental control over public operations. The phenomenon gained prominence in the 1980s and 1990s, when governments in many advanced industrial nations reduced their stake in state-owned industries such as steel, aerospace, railroads, oil, postal services, telecommunications, electricity, gas, and water. Two decades later, the phenomenon diversified into many variants, such as outsourcing, subcontracting, "internal markets," and public-private partnerships; extends well beyond the industry sectors listed above; and is repeated in the transitional economies of the former Warsaw Pact.

CAUSES AND RATIONALE

In simple economic terms, a small number of goods and services has to be provided publicly. Their defining characteristic is that they cannot be priced and no one can therefore be excluded by price from the benefits they provide—or indeed the disbenefits, since such goods and services may be associated with public ills such as atmospheric pollution and epidemic diseases. Some significant areas of state spending are *unpriceable public goods* in this sense, including national defense and law and order. Yet there are also *policy-determined public goods*, or publicly provided private goods, such as medical care, education, pensions, and transport, which could be priced but are not. Depending on the extent to which nations subscribe to the ideals of the Keynesian welfare state, policymakers may decide to provide these goods publicly as a means to bring about greater equality among citizens. On this view, it is deemed unjust if access to (and the quality of) public services such as health care or education depends on an individual's level of income.

A further cause of the trend toward privatization was that public debt and borrowing requirements in many industrialized nations rose significantly as in the final decades of the twentieth century states found themselves having to foot the bill for burgeoning welfare provisions. Privatization was regarded as a means to cut debts by selling off state-owned assets and by transferring the responsibility for investment to private entities, the management skills and financial acumen of which were expected to create better value for the money for taxpayers.

However, while the newfound prosperity after World War II (1939–1945) led to a continuous expansion of welfare states around the world, this process came to a halt in the 1980s. This was due, first, to the up-and-coming economic paradigm of neoliberalism, which demanded that states relinquish their role in economic affairs so as to restore incentives for economic growth and efficiency. The underlying rationale was that the private sector is more