

## **Chapter 5**

### **Public Corporations**

#### **1. Features of public corporations**

- State owned : The government owns public corporations.
- Created by law : Public corporations are created by an act of parliament.
- Incorporation : Public corporations are incorporated businesses. This is they have a separate legal identity.
- State-funded : The money comes from tax. Provide public services : Eg. NHS provides free health care in the UK.
- Public accountability : Public corporations have to produce annual reports.

#### **2. Reasons for the public ownership of businesses**

**Natural monopoly** : market where it is more efficient to have just one organisation meeting total market demand.

- **Avoid wasteful duplication** : A natural monopoly, this means it is more efficient to have just one business providing a services for the whole market.
- **Maintain control of strategic industries** : This would prevent “outsiders” from another country taking them over and exploiting the nation.
- **Save jobs** : Businesses have been taken into public ownership to save jobs.
- **Fill the gaps left by the private sector** : In some market, the private sector will not make an adequate provision to meet the market’s needs. Eg. Education
- **Serve unprofitable regions** : In some markets, private sector would not deliver important services to unprofitable regions. Eg. Providing electricity to a remote farm

#### **3. Reasons against the public ownership of businesses**

##### **Cost to government**

: A number of public corporations make losses. These losses have to be met by taxpayer.

##### **Inefficient**

: Since no competition in the market, the absence of profit as an objective

##### **Political interference**

: This may occur because different governments have different views about the way public corporations should operate.

##### **Difficult to control**

: Some public corporations are very large. They may employ many thousands of workers spread across a wide geographical area and own huge quantities of physical assets.

#### **4. Privatisation :**

**Meaning :** transfer of public sector resources to the private sector (business)

**Privatisation can take a number of forms.**

- Sale of public corporations : Transferring business activity from the public to the private sector.
- Deregulation : This involves lifting legal restrictions that prevented private sector competition.
- Contracting out : Many government and local authority services have been “contracted out” to private sector businesses.
- The sale of land and property

#### **5. Why does privatisation take place?**

- **To generate income**
- **To reduce inefficiency in the public sector**
- **As a result of deregulation**

: Legal barriers were removed that allowed new businesses in some markets, such as bus and coach services. New firms could encouraged to join the market.

- **To reduce political interference**