

Privatisation

Privatisation is the transfer of assets or resources from the public sector to the private sector.

The theoretical idea is that an industry where often only a single company operated with a monopoly will be turned into a market where there are lots of companies. The competition between these companies results in two things, firstly forcing prices down and making more efficient use of resources. This frees up resources for use in other sectors, so causing economic growth. The second of effect is that companies are forced to innovate and cannot remain stagnant in competition so again causing economic growth.

The most recent example of this is the '192' service. An example of the innovation in this industry is the forwarding service that many providers now offer.

In Britain in the 1970's many more industries were state owned. In 1979 Thatcher came to power and different beliefs were held. Throughout the '80's the government privatised nearly all the industries that were in the public sector. This generated billions for the government and gave the benefits of competition.

The post office is one of few industries that has not yet been privatised. This is soon to change, but the effect may be detrimental. Currently to send a letter anywhere in the UK costs the same price to send, yet the cost of delivering a letter can vary dramatically. This is the kind of area where a privatised company, striving for profits may lead to the service being reduced, and as has been seen in the rail industry lack of investment favouring rewards to share holders.

Electricity generation is another example of where privatisation may not have worked well. As companies strive for efficiency the companies produce only enough electricity to satisfy demand, and if there is a sudden rise in the demand for electricity, due to particularly good or bad weather we may suffer power outages like Italy did earlier this year.

Whilst privatisation brings the short term gains of competition and revenue for the government the long term consequences may lead to a decline in a particular service or industry.