Thirty years ago this would have been a very straightforward topic. A textbook would have said something like, “Businesses can be classified by whether they are in the private sector or the public sector. In the private sector, businesses are owned and run by individuals. This is known as ‘private enterprise’. In the public sector, industries are owned and run on behalf of the public by the government. This is known as ‘public ownership’. That is what you would have been taught. End of story - although you would probably then have been given a long list of the industries (yes, industries) that the government owned including, British Airways, British Steel, British Telecom, the coal mines, the gas board, the electricity board and the water board.

You may be rather surprised to learn that. After all, you will know these organisations as public limited companies (do not confuse ‘public company’ with ‘public ownership’!). Why on earth would the government own these sorts of industry? Initially, when they were taken into government ownership, the idea was that the government could keep up employment levels by using the industries to take on employees if the economy was performing poorly. It could also help with other aspects of economic policy; inflation could be kept down by instructing the gas, electricity and water boards to keep prices low.

This sounds fine, but by the end of the 1970s, a view was taking hold that they were over-manned and, therefore, inefficient and unprofitable. They also suffered from a variety of industrial relations problems. So, the Thatcher government saw that selling them off into private ownership could kill several birds with one stone; the government could be rid of loss-making businesses, it would no longer have to deal with industrial relations, allowing competition in an industry instead of one single monopoly supplier should drive down prices, and of course, money could be raised by the sale of the business.
Today things are different. The government tends to stick to providing services that would not be provided by the private sector in sufficient amounts or even at all, such as the NHS, the education system, and the police. There are not many ‘businesses’ left in the public sector. Organisations such as the NHS are not a ‘business’ in the usual sense and are not expected to make a profit. The objective of most of the public sector is to provide a value for money service.

However, there is likely to be much common ground between an organisation in the private sector and one in the public sector: NHS managers may not have ‘customers’ but patient care (i.e. quality of service) should be as high as possible and as you will know, in these tough times money is tight, and they have to set budgets and prioritise resources in the same way as managers elsewhere.

Also, do not forget that the public sector also includes local government. Here, matters are also very different to the past. Whereas the council has to ensure certain services are delivered, it does not have to provide them itself. ‘The binmen’ and street cleaning, are perhaps the most obvious examples. There are few local authorities that provide these themselves. Why? If the council employs the workforce, it obviously has to pay the employees but it also has to pay the employer’s national insurance contribution and make provision for pensions. It also has to manage issues of sickness and industrial relations; the workforce may go on strike.

If these services are contracted out to a private firm then payment for the service is obviously made but the other issues are no longer the concern of the council. It still has the overall responsibility for making sure people get the services (and it will be the first port of call for dissatisfied local residents) but most of the costs and problems associated with provision are no longer its ‘problems’. Also, because contracts are put out to competitive tender - i.e. the firms hoping to provide the services compete on cost and quality of service - costs should fall. Hopefully, council tax (paid by people locally) and the business rate (paid by businesses locally) should be lower and the service provided better.

Thus, there is now a much greater interaction of the public sector and the private sector than there was even ten years ago. For example, in the past if you were ill and you needed to see a specialist, you waited until there was an appointment free at your local NHS hospital. Now, your doctor can send you to see a specialist at a private hospital. The public sector NHS pays but it uses the private sector. The rigid distinction between the two no longer exists. The logic being that it does not matter who actually provides the service as long as it is cost effective and there is ‘customer satisfaction’.

Hopefully, you can now see that the statement at the start of this article (“In the private sector businesses are owned and run by individuals. In the public sector industries are owned and run on behalf of the public by the government”) whilst true enough, is nowhere near the full story. Business studies teachers are never happy when a student says “I like this subject, its common sense”. It clearly is not! Even on the topics that seem straightforward and obvious it is important to be up to date and know what is going on in ‘the real world’.